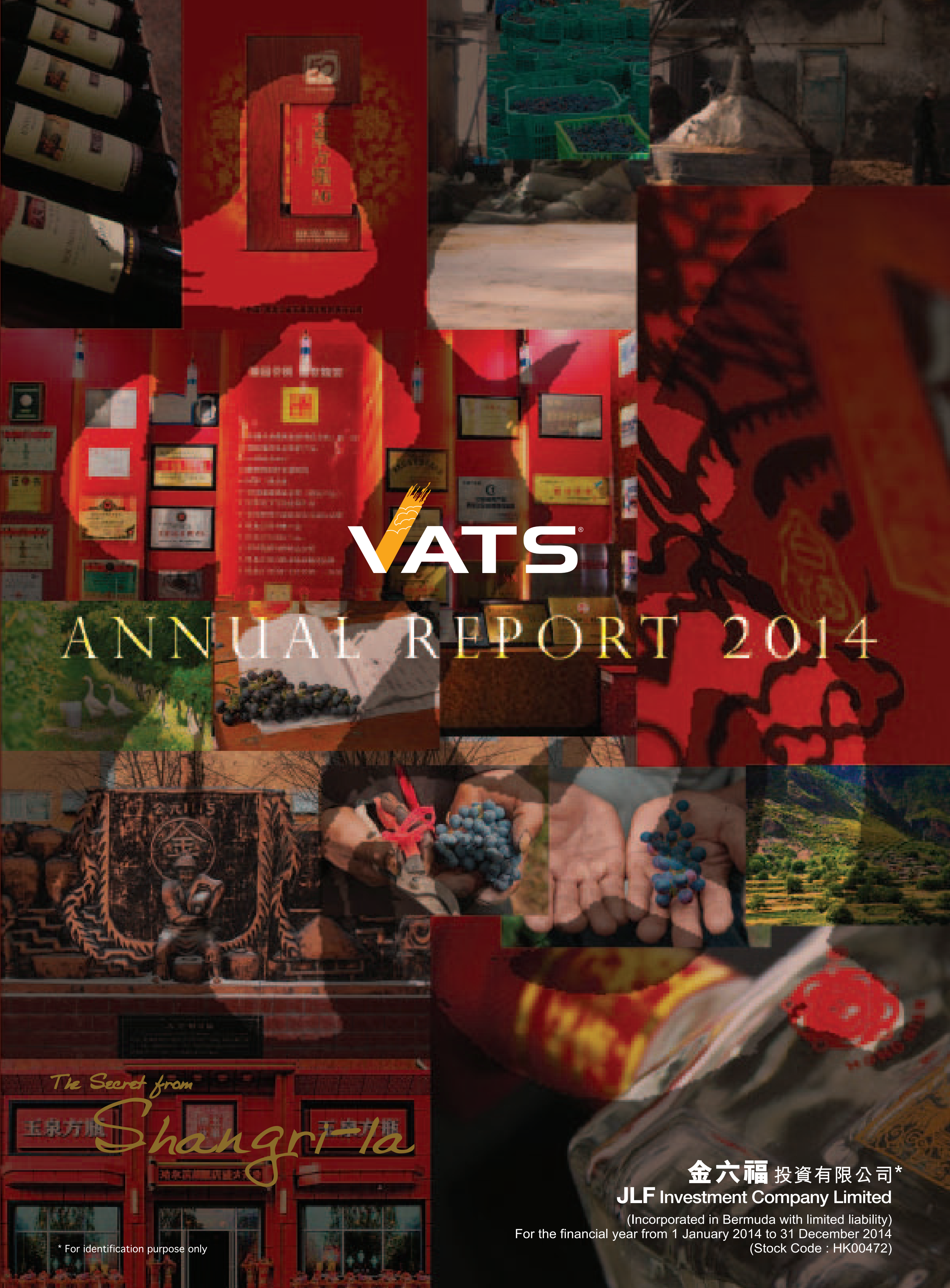


VATS®

ANNUAL REPORT 2014

The Secret from Shangri-la

金六福投資有限公司*

JLF Investment Company Limited

(Incorporated in Bermuda with limited liability)

For the financial year from 1 January 2014 to 31 December 2014

(Stock Code : HK00472)

* For identification purpose only

The Secret from Shangri-la

CONTENTS

Awards and Recognitions 02

Corporate Information 04

Chairman's Statement 05

Financial Highlights 08

Management Discussion and Analysis 12

Biographies of Directors and Senior Management ... 18

Directors' Report 21

Corporate Governance Report 31

Independent Auditors' Report 47

Consolidated Statement of Profit or Loss 49

Consolidated Statement of Profit or Loss and Other Comprehensive Income 50

Consolidated Statement of Financial Position 51

Statement of Financial Position 53

Consolidated Statement of Changes in Equity 54

Consolidated Statement of Cash Flows 55

Notes to the Consolidated Financial Statements 56

Five Years Financial Summary 120

Awards and Recognitions

05

Claimed 'China Time-Honored Brand' title
• Yuquan Fang Ping

06

Certification and Supervision Management Centre for Asia International Reputed Brand
Asia's 500 Most Valued Brand
• Shangri-la Winery Company Limited

08

The 3rd Asian Wine Competition
Gold Prize
• Plateau 1900 Cabernet Sauvignon

Penglai Vinalies Internationales China
Gold Prize
'Vinalies d'OR'
• Plateau 1900 Cabernet Sauvignon

Silver Prize
'Vinalies d'Argent'
• Plateau 2700 Cabernet Sauvignon

Awarded 'Chinese Famous Trademark'
• Yuquan

09

China Quality Certification Centre
Organic Product Approval
• Shangri-la product

11

The 5th Colombin Cup Yantai International Wine Competition

Gold Prize

- Plateau A5 Cabernet Sauvignon

Silver Prize

- Plateau A6 Cabernet Sauvignon

12

APR

The 5th Asian Wine Competition

Gold Prizes

- Plateau A3 Chardonnay
- Plateau 2100 Cabernet Sauvignon
- Plateau 2800 Cabernet Sauvignon

Trademark Office of The State Administration for Industry & Commerce of the PRC

Chinese Famous Trademark

- Shangri-la brand

JUN

The 6th Colombin Cup Yantai International Wine Competition

Gold Prizes

- Plateau A2 Cabernet Sauvignon
- Plateau A2 Chardonnay

13

MAY

Hong Kong International Wine Challenge 2013

Silver Prizes

- Plateau A2 Chardonnay (in Cool Climate selection)
- Plateau A3 Chardonnay

Bronze Prizes

- Plateau A2 Chardonnay (in Chardonnay category)
- Plateau A5 Cabernet Sauvignon
- Plateau A6 Cabernet Sauvignon
- Plateau 1900 Cabernet Sauvignon
- Plateau 2700 Cabernet Sauvignon

Seal of Approval

- Dai Zangmi 9º Tibetan Dry

JUL

The 7th Yantai International Wine Competition

Gold Prize

- Plateau A3 Cabernet Sauvignon

2013 Vinalies Internationales China

Silver Prize

- Plateau A3 Chardonnay

AUG

China Competition for Good Value International Wines

Premium Award

- Plateau A8 Cabernet Sauvignon

Special Award

- Plateau 2800 Cabernet Sauvignon

14

Heilongjiang Provincial Quality and Technical Supervision Bureau

Awarded 'Heilongjiang Famous Brand'

- 'Yuquan' brand

Awarded 'Famous Trademark' of the Harbin City

- 'Yuquan' trademark

APR

The 6th Asian Wine Competition

Silver Prizes

- Plateau 2100 Cabernet Sauvignon of 2009 vintage
- Plateau A5 Cabernet Sauvignon of 2011 vintage

AUG

2014 ARC Awards International

Gold Prizes

- Non-Traditional A.R. - Beer / Wine
- Interior Design - Manufacturing & Distributing

Silver Prize

- Non-Traditional A.R. - Manufacturing & Distributing

Bronze Prizes

- Cover Photo / Design - Beer / Wine
- Cover Photo / Design - Beverage
- Cover Photo / Design - Manufacturing & Distributing

Honors

- Printing & Production - Manufacturing & Distributing

The Best 100 Annual Reports of 2014 in ARC 100 Gallery

BOARD OF DIRECTORS

Executive Directors:
Mr. Wu Xiang Dong (Chairman)
Mr. Yan Tao (Vice-Chairman)
Mr. Shu Shi Ping (Chief Executive)
Mr. Sun Jian Xin
Mr. Ng Kwong Chue, Paul
Mr. Zhang Jian

Independent Non-executive Directors:
Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu

AUTHORIZED REPRESENTATIVES

Mr. Shu Shi Ping
Mr. Ng Kwong Chue, Paul

COMPANY SECRETARY

Mr. Ng Kwong Chue, Paul

NOMINATION COMMITTEE

Mr. Wu Xiang Dong (Chairman)
Mr. Yan Tao
Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu

REMUNERATION COMMITTEE

Mr. Ting Leung Huel, Stephen (Chairman)
Mr. Wu Xiang Dong
Mr. Yan Tao
Mr. E Meng
Mr. Cao Kuangyu

AUDIT COMMITTEE

Mr. Ting Leung Huel, Stephen (Chairman)
Mr. E Meng
Mr. Cao Kuangyu

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

LEGAL ADVISERS

Bermuda:
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Hong Kong:
Michael Li & Co.
19/F., Prosperity Tower
39 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
China Construction Bank Corporation
Agricultural Development Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1905B, 19/F., Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT

Tricor Progressive Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

00472


CHAIRMAN'S
STATEMENT

Challenging Adversity Fight for the Best

Dear Fellow Shareholders,

On behalf of the board of directors (the "Board") of JLF Investment Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present the Group's annual report and financial results for the year ended 31 December 2014.

ECONOMY OUTLOOK

The world economy continues to pick up since the second half of 2014 yet recovery remains fragile. Many developed countries continue to grapple with legacies from the global financial crisis and emerging economies are less dynamic than in previous years.

China being the powerhouse for Asia's growth has its 2014 gross domestic products growth reduced to 7.4% against a backdrop of economic reforms. Such growth rate was the lowest in 24 years. With the government effort to contain vulnerabilities via fiscal and monetary policies supported by administrative measures, there are signs that growth deceleration is under control. This new economic norm will eventuate and gradually become consensus in the government and business sectors. The adjustments of domestic market and business sentiment continue to redefine challenges and opportunities facing the new China market. With continuous slowdown of economic growth and fierce competition brought by e-commerce and imports, challenges in China's wine and Chinese baijiu industry remain.

FINANCIAL OVERVIEW

In response to the grim market condition, we have carried out a series of reforms and transformations to gradually adjust our business model and operation approach through implementation of cost reduction and management innovation, with an aim to stabilize the performance of the Group. To streamline production and centralize control, we have completed the relocation of bottling facilities from Kunming to Shangri-la Diqing Economic Development Zone such that the bottling facilities are housed together with the production plant. This relocation effort can be converted into an annual cost saving of approximately HK$2.5 million. Due to the deterioration of results for the consecutive years, we have decided to write off all goodwill and other related intangibles, as a result of which there will be less distortion to future financial results.

2014 was the worst year of all time for the Group. The year's total turnover was HK$255.4 million (2013: HK$336.6 million), representing a decrease of 24.1% compared to the same period last year and loss for the year was HK$225.9 million (2013: HK$79.8 million). Without taking into account the impairment of intangibles which are non-cash nature and one off items, the aggregate loss would have been HK$42.0 million. Loss attributable to owners of the Group was HK$193.0 million (2013: HK$82.0 million) and basic loss per share was HK11.57 cents (2013: HK4.91 cents).

BUSINESS OVERVIEW

The Group has been progressively carrying out effective promotional activities in order to further enhance its brand awareness. During the year, we have participated in Vinexpo, the largest international event for wine and liquor business and was well received in the industry. Our Shangri-la Plateau "A" series and Dai Zang Mi (大藏秘) series had attracted enormous attention and earned high recognition from various wine experts. We will continue to participate in similar events in order to gain more international exposure and take our brand awareness to the international stage. Shangri-la Winery had joined the 6th Asian Wine Competition in April 2014. The Plateau 2100 cabernet sauvignon of 2009 vintage and Plateau A5 cabernet sauvignon of 2011 vintage were both awarded silver prizes in the competition.

In 2014, our Yuquan brand was also awarded the "Heilongjiang Famous Brand" issued by Heilongjiang Provincial Quality and Technical Supervision Bureau and the "Yuquan" trademark was awarded the "Famous Trademark" of the Harbin city. All of these have demonstrated the wide recognition of our brands and products and the result of our brand building effort.

Apart from the above, we have earned a total of eight titles on the design and production of our 2013 annual report in the 28th International ARC Awards* and was honored the best 100 Annual Reports of 2014 in the ARC 100 Gallery. This was encouraging as our efforts in corporate communications were being rewarded with such prestigious awards.

We are planning to gradually enhance the quality of our distributors in the coming two to three years. We also actively maintain and expand our VIP customer base and interact with our VIP customers through different channels in order to better understand their needs. We believe such initiatives will help us to enhance our brand image, increase the target consumers' awareness and customer loyalty for our Shangri-la and Yuquan brands.

On top of the core strategies of enhancing brand value and product quality, we also aim at improving our overall operational efficiency to sustain growth in various aspects of operations. For our distribution channels, we have adjusted the number of distributors by closing those with unsatisfactory performance. We have been focusing on quality rather than quantity when expanding our distribution network. We are working closely with our distributors on our network channel management to present our brand image and deliver the best refined service to our consumers. Besides, the Group has begun to sell products on a consignment model in specific markets since the second half of 2014 aiming to diversify our sales channel. We believe a combination of wholesale, retail and consignment models in our business could create synergy by enhancing inventory management and logistic efficiency. This is particularly essential to our effort in maintaining an effective inventory mix and increasing the inventory turnover rate. All of these measures will in turn improve our revenue and profits and sustain future growth.

PROSPECTS

Looking ahead, although China's economy and consumption market are slowing down and keen competition persists, we remain optimistic about the future of the country's wine and Chinese baijiu market. The swelling middle class will together generate enormous long-term demand for quality products. The Group will closely monitor the trend and grasp possible development opportunities with our unique brand offerings. In terms of our management policies, the Group will focus on continuing to streamline productivity in our existing factories, enhancing both efficiency and our overall services in order to support the development of our brand image.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to all staff members for their dedication and contribution, as well as to our shareholders and business partners for their strong support. We will continue with our endeavor to pursue growth for our Group and create value for our shareholders. We believe that we are at the turnaround stage and year 2015 will be a fruitful year for the Company and its shareholders.

* *The International ARC Awards, organized by MerComm Inc., is the world's largest and independent international competition honoring excellence in annual reports and is considered the most highly respected and prestigious award by industry peers and is dubbed the "Academy Awards of Annual Reports".*

OPERATION ANALYSIS

TURNOVER
(UNIT : HK$'000)

337,133 400,272 366,208 336,563 255,379

TURNOVER DECREASED BY 24.1% IN 2014

COST OF SALES
(UNIT : HK$'000)

156,379 182,524 179,771 172,635 147,037

COST OF SALES DECREASED BY 14.8% IN 2014

GROSS PROFIT
(UNIT : HK$'000)

180,754 217,748 186,437 163,928 108,342

GROSS PROFIT DECREASED BY 33.9% IN 2014

NET PROFIT (LOSS)
(UNIT : HK$'000)

45,588 57,841 23,351 (79,765) (225,902)

NET LOSS INCREASED BY 183.2% IN 2014

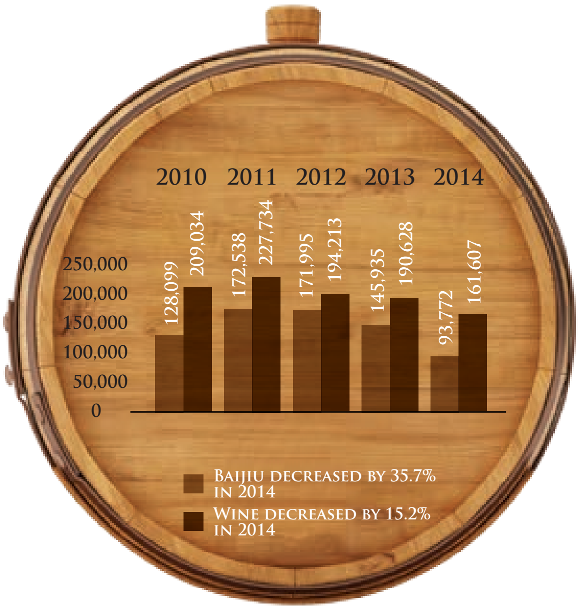
EARNINGS (LOSS) PER SHARE
(HK CENTS)

2.32 2.73 0.59 (4.91) (11.57)

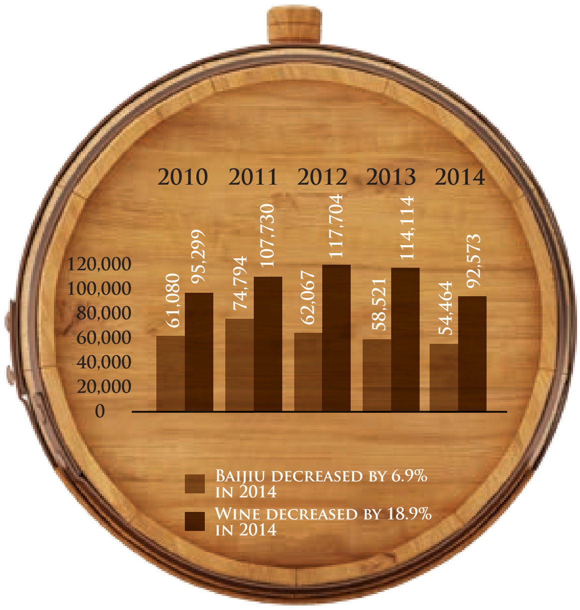
LOSS PER SHARE INCREASED BY 135.6% IN 2014

Business Segments Analysis

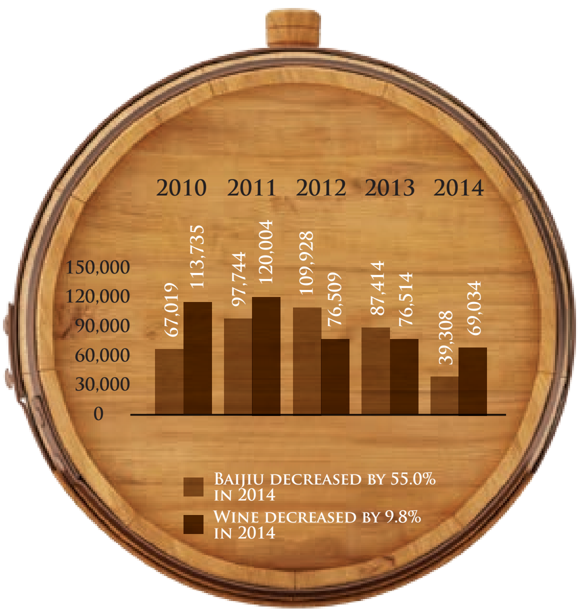
Turnover
(Unit : HK$'000)



Cost of Sales
(Unit : HK$'000)



Gross Profit
(Unit : HK$'000)



Net Profit (Loss)
(Unit : HK$'000)

Assets Distribution Analysis 2014

(Unit : HK$'000)

	2013	2014	
	29,079 (2.9%)	27,678 (3.7%)	Land use rights
	300,457 (29.5%)	294,520 (39.6%)	Property, plant and equipment
	36,582 (3.6%)	9,192 (1.2%)	Intangible assets
	1,847 (0.2%)	1,810 (0.2%)	Available-for-sale investment
	144,449 (14.2%)	(0%)	Goodwill
	246,293 (24.2%)	248,056 (33.4%)	Inventories
	39,450 (3.9%)	23,052 (3.1%)	Trade and bills receivables
	77,609 (7.6%)	32,659 (4.4%)	Prepayment, deposits paid and other receivables
	(0%)	1,270 (0.2%)	Tax recoverable
	141,623 (13.9%)	105,455 (14.2%)	Cash and cash equivalents

LIABILITIES AND EQUITY DISTRIBUTION ANALYSIS 2014

(UNIT : HK$'000)

	2014	2013
SHARE CAPITAL	16,685 (2.2%)	16,685 (1.6%)
RESERVES	378,725 (50.9%)	579,375 (56.9%)
NON-CONTROLLING INTERESTS	66,039 (8.9%)	102,004 (10.1%)
BANK BORROWING - DUE AFTER ONE YEAR	(0%)	64,445 (6.3%)
DEFERRED TAX LIABILITIES	15,711 (2.1%)	22,736 (2.2%)
TRADE PAYABLES	48,548 (6.5%)	49,667 (4.9%)
ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES	152,402 (20.5%)	174,727 (17.2%)
AMOUNTS DUE TO A RELATED PARTY	1,263 (0.2%)	1,289 (0.2%)
BANK BORROWING - DUE WITHIN ONE YEAR	63,150 (8.5%)	(0%)
TAX PAYABLES	1,169 (0.2%)	6,461 (0.6%)

MANAGEMENT DISCUSSION AND ANALYSIS

Conform to Market Aspire to Quality

FINANCIAL INFORMATION

Turnover

During the year, as a result of the ongoing government administration in restricting ostentatious spending, the sales of the Group's high-end products were seriously affected which led to a decrease in gross turnover by 24.1% to HK$255.4 million (2013: HK$336.6 million).

The Chinese baijiu segment, which accounted for 36.7% (2013: 43.4%) of the Group's total turnover, was badly hit and recorded a significant decline in turnover as demand for high-end Chinese baijiu, especially those consumed at official banquets almost stub out. Turnover of the Chinese baijiu segment dropped by 35.7% to HK$93.8 million (2013: HK$145.9 million).

With product mix adjusted in favour of products for mass market, the impact on the wine segment was not as significant as the Chinese baijiu segment. Turnover of the wine segment, which accounted for 63.3% (2013: 56.6%) of the Group's total turnover, has dropped by 15.2% to HK$161.6 million (2013: HK$190.6 million).

Cost of Sales

Cost of sales for wine segment decreased by 18.9% to HK$92.5 million (2013: HK$114.1 million) as turnover declined. Despite the significant drop in turnover of the Chinese baijiu segment, the magnitude of cost of sales just decreased slightly by 6.9% to HK$54.5 million (2013: HK$58.5 million) reflecting higher cost margin on products sold. As a result, the total cost of sales decreased by 14.8% to HK$147.0 million (2013: HK$172.6 million). Cost of sales to total turnover increased from 51.3% to 57.6% reflecting higher marginal cost, in particular, higher material costs, labour and manufacturing overheads.

Gross Profit

Gross profit decreased by 33.9% to HK$108.3 million (2013: HK$163.9 million). Wine and Chinese baijiu segments each accounted for HK$69.0 million and HK$39.3 million respectively. Gross profit margin of wine segment increased slightly by 2.6% to 42.7% (2013: 40.1%) whereas Chinese baijiu segment sharply fell by 18.0% to 41.9% (2013: 59.9%) leading to a reduction in the Group's gross profit margin by 6.3% to 42.4% (2013: 48.7%).

Selling and Distribution Expenses

Selling and distribution expenses decreased by 2.4% to HK$96.5 million (2013: HK$98.9 million) mainly due to the reduced sales commission. Yet due to the reduced turnover, selling and distribution expenses as a percentage of turnover increased by 8.4% to 37.8% (2013: 29.4%) for the year.

Administrative Expenses

Administrative expenses increased by 10.3% to HK$69.6 million (2013: HK$63.1 million). Such increase was mainly attributable to the one-off relocation cost of bottling facilities from Kunming to Shangri-la Diqing Economic Development Zone.

Other Operating Expenses

Other operating expenses demonstrated a substantial increase by 103.8% to HK$178.7 million (2013: HK$87.7 million), within which the major components were the provision for slow-moving inventories and the impairments of goodwill and trademark. During the year, certain inventories amounted to HK$7.9 million (2013: HK$54.2 million) have been written down. Due to continuous deterioration in both wine and Chinese baijiu's operating results, and after considered the valuation report proposed by an independent valuer, we decided to fully write off the goodwill in relation to the wine and Chinese baijiu businesses which amounted to HK$96.9 million (2013: HK$33.5 million) and HK$47.5 million (2013: Nil) respectively, leading to a total goodwill impairment of HK$144.4 million (2013: HK$33.5 million). In addition, trademark in relation to Chinese baijiu business which amounted to HK$26.4 million (2013: Nil) was also impaired. After such adjustments, there will be no goodwill and trademark recorded in the Group's financial.

Loss Before Tax

The combined effect of the decline in gross turnover and gross profit and the increase in operating expenses resulted in a loss before tax of HK$227.8 million (2013: HK$72.1 million).

Taxation

Taxation comprises current income tax and deferred tax credit. Current income tax reduced by 38.9% to HK$4.7 million (2013: the HK$ 7.7 million). During the year, deferred tax credit amounted to HK$6.6 million (2013: Nil) was stated in the consolidated statement of profit or loss as a result of the impairment of trademark, leading to a tax credit of HK$1.9 million.

Loss Attributable to Owners

Loss for the year was HK$225.9 million (2013: HK$79.8 million). Loss attributable to owners of the Company was HK$193.0 million (2013: HK$82.0 million). Basic loss per share attributable to owners of the Company for the year ended 31 December 2014 was HK11.57 cents (2013: HK4.91 cents). Taking out the effects of the one off items relating to goodwill and trademark impairments etc., the aggregate loss would have been HK$42.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Borrowing

We generally finance our operation and capital expenditure by internal generated cash flows as well as banking facilities provided by our principal bankers. As at 31 December 2014, the Group had cash and cash equivalents of HK$105.5 million (2013: HK$141.6 million), representing a decrease of 25.5%. The Group's cash position was deteriorated over the year as a result of net cash outflow from operation. About 94.6% (2013: 93.8%) of our cash was denominated in Renminbi ("RMB").

As at 31 December 2014, our total bank borrowing decreased by 2.0% to HK$63.2 million (2013: HK$64.4 million). All of our bank borrowings are denominated in RMB. In view of the Group's cash and bank balances, funds generated internally from our operation and the unutilized banking facilities available, we are confident that the Group will have sufficient resources to meet its debt commitment and working capital requirements in the foreseeable future.

Capital Expenditure

During the year, our total capital expenditure amounted to HK$24.1 million (2013: HK$30.7 million) which was mainly used for the purchase of machineries and the construction of Shangri-la Masang Château. For the year 2015, we have budgeted HK$21.5 million for capital expenditure.

Inventories

Our inventories primarily consist of finished goods, work in progress and raw materials. The Group's inventories increased slightly by 0.7% to HK$248.1 million (2013: HK$246.3 million). Finished goods decreased by 5.4% to HK$60.7 million (2013: HK$64.2 million) and finished goods turnover ratio (being average closing finished goods divided by cost of sales) was 155 days for the year ended 31 December 2014 (2013: 199 days).

Balance Sheet Analysis

As at 31 December 2014, the Group had total assets of HK$743.7 million (2013: HK$1,017.4 million) of which current assets amounted to HK$410.5 million (2013: HK$505.0 million) and non-current assets amounted to HK$333.2 million (2013: HK$512.4 million). The sharp drop in total assets was mainly due to the impairments of goodwill and trademark.

Total liabilities of the Group included current liabilities of HK$266.5 million (2013: HK$232.1 million) and non-current liabilities of HK$15.7 million (2013: HK$87.2 million). The increase in current liabilities and decrease in non-current liabilities were mainly due to the reclassification of long-term bank loan to short-term bank loan.

Our total equity was composed of owners equity of HK$395.4 million (2013: HK$596.1 million) and non-controlling interests of HK$66.0 million (2013: HK$102.0 million).

The Group's current ratio as at 31 December 2014 was 1.5 (2013: 2.2). Gearing ratio, representing total borrowings divided by total equity, was 13.7% (2013: 9.2%). Both ratios are at healthy level indicating that the Group is able to meet its short-term and long-term debts.

Trade receivables turnover (being average trade receivables divided by turnover) was 13 days (2013: 20 days). The Group did not experience any material bad debts that required to be written off in 2014.

The Group had capital commitments amounted to HK$49.6 million (2013: HK$55.2 million). The Group had no material contingent liabilities as at 31 December 2014.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2014, save as the related parties transactions as disclosed in note 39 to the consolidated financial statements, the major suppliers and customers of the Group are as follows:

The Group's five largest suppliers accounted for 48.0% (2013: 39.2%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was 16.1% (2013: 14.9%). Save as the connected persons, the Group's five largest customers accounted for 34.0% (2013: 32.9%) of the Group's total turnover and the sales attributable to the Group's largest customer was 7.6% (2013: 7.6%).

None of the directors, their close associates or shareholders of the Company which, to the knowledge of the directors of the Company, owned more than 5% of the Company's issued share capital had any beneficial interest in the five largest suppliers or customers of the Group.

GOVERNMENT SUBSIDIES

During the year, the Group has been granted an aggregate amount of HK$10.5 million (2013: HK$14.2 million) from the respective local finance department in subsidising the Group's technical development.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2014 (2013: Nil).

PLEDGE OF ASSETS

At 31 December 2014, the Group pledged its land, property, plant and equipment with net book value amounted to HK$38.8 million (2013: HK$44.6 million) to secure general banking facilities granted.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

As most of the Group's revenue, expenses, assets and liabilities are denominated in RMB, there is natural hedge mechanism in place and currency risk exposure is relatively low. As such, no material exchange rate risk is anticipated and no financial instruments for hedging purposes are employed.

The slow and moderate adjustment of the RMB against the United States dollar has negligible impact on the Group. To enhance overall risk management for its expansion, the Group has already strengthened its treasury management capability and will closely monitor its currency and interest rate exposures.

MATERIAL ACQUISITION AND DISPOSAL

During the year, there was no material acquisition and disposal of subsidiaries or associated companies by the Group.

EMPLOYEE INFORMATION AND EMOLUMENT POLICY

As at 31 December 2014, the Group employed a total of 869 (2013: 1,057) full time employees, in which 266 staff were related to sales and marketing, 330 staff were related to production, 60 staff were related to management and 213 staff were related to administration. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed annually. The Group also provides medical insurance coverage and provident fund schemes (as the case may be) to its employees in compliance with the applicable laws and regulation.

WU XIANG DONG

Chairman and Executive Director

Mr. Wu Xiang Dong, aged 46, was appointed as an executive director of the Company on 25 February 2004 and has become the chairman of the Company since 3 October 2007. He is the chairman of the nomination committee of the Company (the "Nomination Committee") and a member of the remuneration committee of the Company (the "Remuneration Committee"). He is also a director of a subsidiary of the Company. Mr. Wu is the founder of 'Jin Liu Fu' brand, VATS Group Limited ("VATS Group", formerly known as 'Jin Liu Fu Group'), which is the ultimate holding company of the Company and VATS Chain Liquor Store Management Company Limited. He is currently the chairman of VATS Group and VATS Chain Liquor Store Management Company Limited. He has extensive experience in the management of large enterprises, especially in wine and baijiu business in China. Mr. Wu holds 90% equity interests in VATS Group, which is the substantial shareholder of the Company through its indirect shareholdings of JLF Investment Company Limited, a company incorporated in the British Virgin Islands.

Mr. Wu is a member of the 12th National People's Congress of the People's Republic of China (the "PRC") and the vice-chairman of the Hunan Federation of Industry and Commerce. He is a well-known entrepreneur in China's wine and baijiu industry and has been awarded the most prestigious sales and marketing awards in China, including 'the 2nd China Marketing Golden Censer Prize', '2009 Ernst and Young's Entrepreneur of The Year China Award', '2005 Decoration of World Outstanding Chinese Award', 'Top 10 Outstanding Entrepreneur of Chinese Brand Implementation', 'Top 10 Outstanding CEO', 'China's Creditable Entrepreneur', 'Asia Top 10 Worthies in Brand Innovation', 'Top 10 Marketing Manager in China's Winery Industry', 'Top 10 Distribution Channel Leaders in China's Winery Industry', 'the Most Influential Entrepreneur in New China for 60 years' and 'the 2nd Outstanding Entrepreneur of Hunan Province'.

YAN TAO

Vice-Chairman and Executive Director

Mr. Yan Tao, aged 51, was appointed as an executive director and the vice-chairman of the Company on 27 April 2009. He is a member of each of the Remuneration Committee and the Nomination Committee. He is also a director of a subsidiary of the Company. Mr. Yan is a member of the Communist Party of China. He graduated from Hunan University with a postgraduate in economics faculty. He had worked as a deputy general manager at Hunan Zhuzhou Electric Welding Company Limited before joining VATS Group in 1999. During his engagement as the vice president of VATS Group, he had also involved in various operating positions within VATS Group including acting as the general manager of Shangri-la Winery Company Limited and the chief operation officer of Jin Liu Fu Sales Company Limited. He is currently the president of VATS Group and holds 10% equity interests in VATS Group. Mr. Yan has years of experience in marketing of wine and baijiu products and has extensive experience in the operation of chain stores.

SHU SHI PING

Executive Director and Chief Executive

Mr. Shu Shi Ping, aged 52, was appointed as an executive director of the Company on 27 September 2004 and has become the chief executive and authorized representative of the Company since 21 June 2011. He is a director of certain subsidiaries of the Company. Mr. Shu had been appointed as the deputy director of the Municipal Office of Changsha, Hunan Province, the executive deputy general manager of Zhuhai Jiaguan Plastic Products Company Limited and the general manager of Yunnan Jinliufu Liancai Trading Company Limited. He is currently the director and general manager of Shangri-la Winery Company Limited. Mr. Shu is a member of 'Wine Expert Committee under China Foods Association' and obtained a bachelor degree from Hubei University of Technology (formerly known as 'Hubei Light Industry College'). He is experienced in the manufacturing and marketing of wine products.

SUN JIAN XIN

Executive Director

Mr. Sun Jian Xin, aged 46, was appointed as an executive director of the Company on 3 October 2007. He is a director of a subsidiary of the Company. He graduated from the Food Science Department of the Southwest Agricultural University and is experienced in the sales and marketing of wine and baijiu products in the PRC. Mr. Sun used to work with Hunan Zhuzhou Hualong Food Company Limited. He currently serves as the vice president of VATS Group.

NG KWONG CHUE, PAUL

Executive Director

Mr. Ng Kwong Chue, Paul, aged 44, was appointed as an executive director of the Company on 28 March 2011. He is the authorized representative, company secretary and chief investment officer of the Company. He is also a director of a subsidiary of the Company. He holds a bachelor degree in Commerce from the University of Melbourne. He is a member of each of CPA Australia, Hong Kong Institute of Certified Public Accountants and Hong Kong Investor Relations Association, and a fellow member of The Hong Kong Institute of Directors. He has many years of experience in corporate finance, corporate restructuring and taxation gained from international accounting firms. He also serves as the executive director of Daqing Dairy Holdings Limited (stock code: 1007). He was the co-founder of China Innovation Investment Limited (stock code: 1217) and had acted as the executive director and non-executive director of the company from April 2003 to May 2006 and from May 2006 to May 2013 respectively. Mr. Ng is also the honorary chairman for Macao ASEAN International Chamber of Commerce, the honorary president for Fujian Province Shishi Yuhu Care Charity Association and The General Association of Xiamen (H.K.) Ltd.

ZHANG JIAN

Executive Director

Mr. Zhang Jian, aged 41, was appointed as an executive director of the Company on 25 February 2004. He currently serves as an executive director of Dongyue Group Limited (stock code: 189) and a director of Macrolink Real Estate Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000620). Mr. Zhang has many years of experience in investment banking and corporate finance. He holds a bachelor degree in law and economics from Jiangxi University of Finance and Economics and a master degree in business administration from The Chinese University of Hong Kong.

TING LEUNG HUEL, STEPHEN

Independent Non-Executive Director

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (Practising), ACA, CTA (HK), FHKIoD, aged 61, was appointed as an independent non-executive director of the Company on 25 February 2004. He is the chairman of each of the audit committee of the Company (the "Audit Committee") and the Remuneration Committee, and a member of the Nomination Committee. Mr. Ting is an accountant in public practice and has more than 30 years of experience in this field. Currently, he is the managing partner of Messrs Ting Ho Kwan & Chan, Certified Public Accountants and the director of Ting Ho Kwan & Chan CPA Limited. He is a member of the 9th, 10th and 11th Chinese People's Political Consultative Conference, Fujian. He is a non-executive director of Chow Sang Sang Holdings International Limited (stock code: 116) and holds independent non-executive director in six other listed companies, namely Tongda Group Holdings Limited (stock code: 698), Tong Ren Tang Technologies Co. Ltd. (stock code: 1666), Computer and Technologies Holdings Limited (stock code: 46), Texhong Textile Group Limited (stock code: 2678), China SCE Property Holdings Limited (stock code: 1966) and Dongyue Group Limited (stock code: 189).

E MENG

Independent Non-Executive Director

Mr. E Meng, aged 56, was appointed as an independent non-executive director of the Company on 27 September 2004. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. E graduated from China Science and Technology University with a master degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. Mr. E has extensive experience in economics, finance and enterprise management. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E serves as the chairman and executive director of Beijing Development (Hong Kong) Limited (stock code: 154), the executive director and executive vice president of Beijing Enterprises Holdings Limited (stock code: 392), the vice-chairman and executive director of Beijing Enterprises Water Group Limited (stock code: 371) and the vice-general manager and chief financial officer of Beijing Enterprises Group Company Limited.

CAO KUANGYU

Independent Non-Executive Director

Mr. Cao Kuangyu, aged 64, was appointed as an independent non-executive director of the Company on 25 February 2004. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. He holds a bachelor degree in economics from the University of Hunan and a master degree in financial management from the University of London. Mr. Cao has extensive experience in banking and finance. He worked in Bank of China, Hunan Province branch for the period from July 1981 to February 1996 and his last position was the deputy president of the branch. For the period from February 1996 to September 1999, Mr. Cao was the deputy general manager of Bank of China, Singapore branch. For the period from September 1999 to September 2003, he was the president of China Citic Bank, Shenzhen branch. Then he worked as the managing director of the investment banking division of BOCI Asia Limited from September 2003 to September 2007. Mr. Cao is currently an independent non-executive director of Dingyi Group Investment Limited (stock code: 508), Huili Resources (Group) Limited (stock code: 1303), Dongwu Cement International Limited (stock code: 695) and Junefield Department Store Group Limited (stock code: 758). He was an independent non-executive director of King Stone Energy Group Limited (stock code: 663) from February 2010 to April 2012.

DIRECTORS' REPORT

Perseverance in Going Forward Enforcement in Market Strength

The directors of the Company (the "Directors") present their annual report together with the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its principal subsidiaries are engaged in the manufacturing and trading of self-owned brand grape wine, tibetan barley wine and Chinese baijiu. The Group's head office is in Hong Kong and all of its manufacturing and sales operations are located in the PRC.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss on page 49.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2014 (2013: Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and of the Company during the year are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company did not have any distributable reserves.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:
Mr. Wu Xiang Dong (Chairman)
Mr. Yan Tao (Vice-Chairman)
Mr. Shu Shi Ping (Chief Executive)
Mr. Sun Jian Xin
Mr. Ng Kwong Chue, Paul
Mr. Zhang Jian

Independent non-executive Directors:
Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu

In accordance with bye-law 87(1) of the Company's bye-laws (the "Bye-laws"), Mr. Yan Tao, Mr. Ting Leung Huel, Stephen and Mr. E Meng will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 18 to 20 of this report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 32 and 39 to the consolidated financial statements, no contract of significance, to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year, nor had there been any contract of significance entered into between the Group and a controlling shareholder of the Company during the year ended 31 December 2014.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Details of the share option schemes of the Company are set out in note 38 to the consolidated financial statements.

Save as disclosed above, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save for Mr. Wu Xiang Dong and Mr. Yan Tao who are both holding shares and directorships in a number of private companies involved in the manufacturing, sale and distribution of Chinese baijiu and wine in the PRC, none of the Directors or any of their respective close associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

The above-mentioned competing businesses are operated and managed by companies with independent management and administration. In addition, the Board is independent of the boards of the above-mentioned companies carrying on the competing businesses. Accordingly, the Group is capable of carrying on its businesses independent of the competing businesses mentioned above.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31 December 2014, the following Directors and the chief executive of the Company had or were deemed to have interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange:

(i) Long positions in the shares of the Company

Name of Director	Nature of interest	No. of shares held	Approximate percentage of issued share capital
Mr. Wu Xiang Dong *(Note)*	Controlled corporation	841,120,169	50.41%
Mr. Shu Shi Ping	Beneficial owner	3,180,000	0.19%
Mr. Ng Kwong Chue, Paul	Beneficial owner	3,000,000	0.18%

Note: These shares are held by JLF Investment Company Limited ("JLF BVI") which is a company incorporated in the British Virgin Islands and is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Company Limited. Mr. Wu Xiang Dong also owns 5% equity interests in Macro-Link Holding Company Limited which, through its indirect wholly-owned subsidiary, MACRO-LINK International Investment Co, Ltd., held 215,988,337 shares (or 12.94% of the issued share capital of the Company as at 31 December 2014).

DISCLOSURE OF INTERESTS *(Continued)*

(a) Interests of Directors *(Continued)*

(ii) Long positions in the registered capital in associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Registered capital held in the associated corporation	Approximate percentage of registered capital
Mr. Wu Xiang Dong	VATS Group Limited	Beneficial owner	RMB90,000,000	90%
Mr. Yan Tao	VATS Group Limited	Beneficial owner	RMB10,000,000	10%

Save as disclosed above, as at 31 December 2014, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at 31 December 2014, so far as is known to the Directors or the chief executive of the Company, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of Shareholder	*Notes*	Nature of interest	No. of shares held	Approximate percentage of issued share capital
JLF BVI	*1*	Beneficial owner	841,120,169	50.41%
Yunnan Jinliufu Investment Company Limited	*1*	Controlled corporation	841,120,169	50.41%
VATS Group Limited	*1*	Controlled corporation	841,120,169	50.41%
MACRO-LINK International Investment Co, Ltd.	*2*	Beneficial owner	215,988,337	12.94%
Macro-Link Industrial Investment Limited	*3*	Controlled corporation	215,988,337	12.94%
Macro-Link Holding Company Limited	*3*	Controlled corporation	215,988,337	12.94%
Mr. Fu Kwan	*3,4*	Controlled corporation	215,988,337	12.94%
Cheung Shek Investment Company Limited	*4*	Controlled corporation	215,988,337	12.94%
Ms. Xiao Wenhui	*4*	Beneficial owner/ Controlled corporation	216,988,337	13.00%

DISCLOSURE OF INTERESTS *(Continued)*

(b) Interests of Substantial Shareholders *(Continued)*

Long positions in the shares of the Company (Continued)

Notes:

1. These shares are held by JLF BVI which is a company incorporated in the British Virgin Islands and is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Company Limited.

2. These shares are held by MACRO-LINK International Investment Co, Ltd. which is a company incorporated in the British Virgin Islands and is wholly-owned by Macro-Link Industrial Investment Limited.

3. Macro-Link Industrial Investment Limited is a wholly-owned subsidiary of Macro-Link Holding Company Limited. Macro-Link Holding Company Limited is owned as to 75% by Cheung Shek Investment Company Limited, as to 10.63% by Mr. Fu Kwan, as to 5% by Mr. Wu Xiang Dong and as to the remaining by five individuals.

4. Cheung Shek Investment Company Limited is owned as to 53.35% by Mr. Fu Kwan, as to 33.33% by Ms. Xiao Wenhui who also has a personal interest in 1,000,000 shares of the Company, and as to 13.32% by four other individuals.

Save as disclosed above, as at 31 December 2014, the Directors or the chief executive of the Company were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2014, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the following continuing connected transactions:

Master Sales Agreements

(A) Shangri-la Agreement

On 6 July 2012, Shangri-la Winery Company Limited ("Shangri-la Winery") entered into a master sales agreement (the "Shangri-la Agreement") with VATS Chain Liquor Store Management Company Limited ("VATS Chain Store") pursuant to which VATS Chain Store has agreed to purchase grape wine and the related services (the "Shangri-la Wines") produced and provided by Shangri-la Winery, on a non-exclusive basis, to VATS Chain Store for a term commencing from 1 July 2012 up to 31 December 2014.

As VATS Chain Store is owned as to 67.08% by Mr. Wu Xiang Dong (who is the chairman of the Board and an executive Director) and 2.76% by VATS Group Limited (which is the ultimate holding company of JLF BVI, a company incorporated in the British Virgin Islands and interested in about 50.41% of the issued share capital of the Company) and thus, is a connected person of the Company.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Master Sales Agreements *(Continued)*

(A) Shangri-la Agreement (Continued)

Under the Shangri-la Agreement, the Shangri-la Wines were sold by the Group to VATS Chain Store at a price which was 20%-25% lower than average wholesale prices as VATS Chain Store has agreed to invest not less than 20% of the total actual annual purchased amount to promote and raise the brand image and market position of Shangri-la brand and would bear and be solely responsible for all the costs and expenses to be incurred in relation to the sales and distribution of the Shangri-la Wines. The terms of sales were of no more favourable than terms offered to other independent third parties who was willing to order similar quantity under similar conditions.

The sales caps under the Shangri-la Agreement for each of the three years ended 31 December 2014 were RMB30 million, RMB40 million and RMB50 million respectively.

(B) Jinliufu Agreement

On 6 July 2012, Shangri-la Winery and Heilongjiang Province YuQuan Winery Company Limited ("YuQuan") entered into a master sales agreement (the "Jinliufu Agreement") with Yunnan Jinliufu Trading Limited ("Yunnan JLF Trading") pursuant to which Yunnan JLF Trading has agreed to purchase the grape wine, tibetan naked barley wine and the related services (the "Shangri-la Products") produced and provided by Shangri-la Winery, the Chinese baijiu and the related services (the "Yuquan Products") produced and provided by YuQuan, on a non-exclusive basis for a term commencing from 1 July 2012 up to 31 December 2014.

As Yunnan JLF Trading is ultimately owned as to 80% by VATS Group Limited (which is the ultimate holding company of JLF BVI) and thus, is a connected person of the Company.

Under the Jinliufu Agreement, the Shangri-la Products and the Yuquan Products were sold by the Group to Yunnan JLF Trading at a price which was 20%-25% lower than average wholesale prices as Yunnan JLF Trading has agreed to invest not less than 20% of total actual annual purchased amount to promote and raise the brand image and market position of Shangri-la brand and Yuquan brand. In addition, Yunnan JLF Trading would also bear and be solely responsible for all the costs and expenses to be incurred in relation to the sales and distribution of the Shangri-la Products and Yuquan Products. The terms of sales were of no more favourable than terms offered to other independent third parties who was willing to order similar quantity under similar conditions.

The sales caps under the Jinliufu Agreement for each of the three years ended 31 December 2014 were RMB30 million, RMB30 million and RMB35 million respectively.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Master Purchases Agreement

On 6 July 2012, YuQuan entered into a master purchases agreement ("MPA") with Yunnan Jinliufu Liancai Trading Company Limited ("Jinliufu Liancai"), pursuant to which the Group has agreed to purchase raw materials and the related services, on a non-exclusive basis, from Jinliufu Liancai for a term commencing from 1 July 2012 up to 31 December 2014. The purchase price of such raw materials would be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for purchase of similar materials and services of comparable quality and quantity.

As Jinliufu Liancai is ultimately owned as to 80% by VATS Group Limited (which is the ultimate holding company of JLF BVI) and thus, is a connected person of the Company.

The purchase caps under the MPA for each of the three years ended 31 December 2014 were RMB12 million, RMB15 million and RMB15 million respectively.

As stated in the circular of the Company dated 6 August 2012, the Shangri-la Agreement and the Jinliufu Agreement have been entered into mainly for the purposes of bringing in additional reliable sales channel, and revising certain terms and the annual sales caps under the master sales agreement dated 27 August 2010 to cater for the continuous growth of the Group. The MPA has been entered into for the purposes of expanding the scope of and revising the annual purchase caps under the master purchase agreement dated 27 August 2010 to reflect the increases in production volume. A special general meeting of the Company was held on 23 August 2012 and approval of each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA (including their respective annual caps) were given by the then independent shareholders.

Annual Review of the Continuing Connected Transactions

The independent non-executive Directors have reviewed and confirmed that the above continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA governing them respectively on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also reviewed and issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange. They confirmed that the above continuing connected transactions (i) have been approved by the Board; (ii) were, in all material respects, in accordance with the pricing policies of the Group; (iii) were entered into, in all material respects, in accordance with each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA governing the transactions respectively; and (iv) have not exceeded the relevant annual caps under each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA respectively.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Renewal of Continuing Connected Transactions

The Shangri-la Agreement and the Jinliufu Agreement (collectively, the "Agreements") had expired on 31 December 2014. In order to renew and revise certain terms and the respective annual caps set under the Agreements to cater for the continuous growth of the Group, on 4 December 2014, Shangri-la Winery has entered into new master sales agreements (the "New Master Sales Agreements") to sell Shangri-la Products at a price which is no more than 20% discount to the average wholesale prices to each of VATS Chain Store and Yunnan JLF Trading for a term commencing from 1 January 2015 up to 31 December 2017.

Under the New Master Sales Agreements, the annual caps for sales by the Group to VATS Chain Store are RMB20 million, RMB25 million and RMB30 million, and to Yunnan JLF Trading are RMB40 million, RMB45 million and RMB50 million for each of the three years ending 31 December 2017 respectively. As each of the annual caps under the New Master Sales Agreements exceeds HK$10 million per annum, these renewed continuing connected transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details in relation to the New Master Sales Agreements are set out in the circular of the Company dated 6 February 2015. A special general meeting of the Company was held on 27 February 2015 and approval of the New Master Sales Agreements (including their respective annual caps) has been given by the independent shareholders.

Save as disclosed herein, no other continuing connected transactions have been entered into by the members of the Group.

CORPORATE GOVERNANCE

Details of the corporate governance code duly adopted by the Company are set out on pages 31 to 46 of this report.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive Directors namely Mr. Ting Leung Huel, Stephen (Chairman), Mr. E Meng and Mr. Cao Kuangyu.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the Group's annual results for the year ended 31 December 2014. The Audit Committee was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

AUDITORS

The consolidated financial statements for the year ended 31 December 2014 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

The consolidated financial statements for the years ended 31 December 2012 and 31 December 2013 were audited by HLB Hodgson Impey Cheng and HLB Hodgson Impey Cheng Limited respectively. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

PUBLIC FLOAT

Based on the information which is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

On behalf of the Board
Wu Xiang Dong
Chairman

Hong Kong, 27 March 2015

CORPORATE GOVERNANCE REPORT

INTEGRITY, SUSTAINABILITY, RESPONSIBILITY AND CONSISTENCY

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2014.

CORPORATE GOVERNANCE PRACTICES

Good corporate governance has always been recognised as vital to the Group's success and to sustain development of the Group. We commit to attain and maintain high standards of corporate governance to enhancing shareholders' value and safeguarding interests of shareholders and other stakeholders. The Board has implemented corporate governance code appropriate to the conduct and growth of the Group's businesses.

The Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") sets out principles of good corporate governance.

Throughout the year ended 31 December 2014, the Company has complied with all the applicable code provisions of the CG Code, except for the deviations from code provisions A.6.7 and E.1.2 which are explained as follows:

Code provision A.6.7 provides that independent non-executive directors and non-executive directors should attend general meetings. Mr. E Meng and Mr. Cao Kuangyu, being independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 16 June 2014 (the "2014 AGM") due to their overseas business engagement.

Code provision E.1.2 provides that the chairmen of the board and board committees should attend the annual general meeting to be available to answer questions thereat. Mr. Wu Xiang Dong, being the chairmen of the Board and Nomination Committee, was unable to attend the 2014 AGM due to his overseas business engagement. However, Mr. Yan Tao, being the vice-chairman of the Board, took the chair of the 2014 AGM and the chairmen of the Audit Committee and Remuneration Committee, the company secretary and the auditors attended the 2014 AGM. The Company considers that their presence is sufficient for effective communication with shareholders at the 2014 AGM.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by the Directors.

Having made specific enquiry to all Directors, all of them confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2014.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who, because of such office or position, are likely to possess inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting success of the Company by directing and supervising its affairs. All Directors should make decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company's company secretary (the "Company Secretary") with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each Director is able to seek independent professional advice in appropriate circumstances at the Company's expense upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions or commitments entered into on the Company's behalf.

The Board has the full support of the senior management to discharge its responsibilities.

THE BOARD *(Continued)*

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions as set out in the code provision D.3.1 of the CG Code including, among other matters:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2014, the Board has reviewed the Company's corporate governance practices and the Company's compliance with the CG Code.

Composition

The Board currently comprises six executive Directors and three independent non-executive Directors. The function of the Board is to guide the management to ensure the interests of the shareholders of the Company and other stakeholders are safeguard.

The Company recognises and embraces the benefits of having a diverse board to enhance the quality of its performance. The size and composition of the Board are reviewed from time to time, taking into account the scope and nature of operations of the Company, to ensure that the necessary balance of skills and experience appropriate to the requirements of the business of the Company and facilitate effective decision-making.

As at 31 December 2014, the Board comprised the following members:

Name of Director	Position	Date of first appointment to the Board	Date of last re-election at general meeting
Mr. Wu Xiang Dong	Chairman/Executive Director/Chairman of Nomination Committee	25/2/2004	3/6/2013
Mr. Yan Tao	Vice-Chairman/Executive Director	27/4/2009	15/5/2012
Mr. Shu Shi Ping	Chief Executive/Executive Director	27/9/2004	3/6/2013
Mr. Sun Jian Xin	Executive Director	3/10/2007	3/6/2013
Mr. Ng Kwong Chue, Paul	Executive Director/Company Secretary/ Chief Investment Officer	28/3/2011	16/6/2014
Mr. Zhang Jian	Executive Director	25/2/2004	16/6/2014
Mr. Ting Leung Huel, Stephen	Independent non-executive Director/ Chairman of Remuneration Committee and Audit Committee	25/2/2004	15/5/2012
Mr. E Meng	Independent non-executive Director	27/9/2004	15/5/2012
Mr. Cao Kuangyu	Independent non-executive Director	25/2/2004	16/6/2014

THE BOARD *(Continued)*

Composition *(Continued)*

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and expertise relevant to the business operations and development of the Group. All executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. Biographical details of the Directors are set out in the section of "Biographies of Directors and Senior Management" on pages 18 to 20 of this annual report. The Company has maintained an updated list of Directors identifying their roles and functions on the websites of the Company and the Stock Exchange.

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

Appointment and Re-election

The Company has established formal, considered and transparent procedures for the appointment of new Directors. A person may be appointed as a member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation by the Nomination Committee. The procedures for shareholders of the Company to propose a person as a Director are accessible from the Company's website.

In compliance with code provision A.4.1 of the CG Code, non-executive Directors are appointed for a specific term, subject to re-election. Each of the independent non-executive Directors has accepted a formal appointment by the Company for a period of three years and subject to retirement by rotation. According to the Bye-laws and the code provision of the CG Code, all Directors (including executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years.

Board Diversity Policy

The Board adopted a board diversity policy (the "Board Diversity Policy") in August 2013 which sets out its approach to achieve and maintain diversity on the Board.

The Company recognises the benefits of board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies and sustainable development. According to the Board Diversity Policy, the Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Nomination Committee has set measurable objectives (in terms of gender, age, skills and experience) to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness.

The Board Diversity Policy has been published on the Company's website for public information.

THE BOARD *(Continued)*

Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall operating strategies and policies of the Company.

During the year ended 31 December 2014, four Board meetings were held in March, June, August and December 2014 to consider, among other matters, the interim and final results announcements, financial reports, continuing connected transactions and to discuss significant issues and general operation efficiency of the Group. The attendance records of the Directors are set out below:

	Number of attendance
Executive Directors	
Mr. Wu Xiang Dong	4/4
Mr. Yan Tao	4/4
Mr. Shu Shi Ping	4/4
Mr. Sun Jian Xin	3/4
Mr. Ng Kwong Chue, Paul	4/4
Mr. Zhang Jian	4/4
Independent non-executive Directors	
Mr. Ting Leung Huel, Stephen	4/4
Mr. E Meng	4/4
Mr. Cao Kuangyu	4/4

Practices and Conduct of Meetings

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The chief executive and Company Secretary attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the current Board practice, any material transaction, which involves conflict of interests on a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Bye-laws also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associates have a material interest.

THE BOARD *(Continued)*

Independent non-executive Directors

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through serving on Board committees and active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests, all independent non-executive Directors make various contributions to the effective direction of the Company.

During the year ended 31 December 2014, the Board at all times met the requirements under Rules 3.10 and 3.10A of the Listing Rules with at least three independent non-executive Directors, representing one-third of the Board. Among the three independent non-executive Directors, one of them has the appropriate professional qualifications in accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Company considers all the independent non-executive Directors to be independent.

Mr. Ting Leung Huel, Stephen and Mr. E Meng, who are to retire by rotation at the forthcoming annual general meeting of the Company, have served as independent non-executive Directors for more than 9 years. They have confirmed their independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. They are neither involved in the daily management of the Company nor have any relationships, and there does not exist any circumstances which would interfere with the exercise of their independent judgement. In addition, Mr. Ting and Mr. E continue to demonstrate the attributes of independent non-executive Directors and there are no evidences that their tenures have had any impact on their independence. Accordingly, the Company considers that Mr. Ting and Mr. E remain independent notwithstanding the length of their services and will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

Supply of and Access to Information

The management supplied the Board with adequate and sufficient information through financial reports, business and operational reports, in a timely manner, to enable them to make informed decisions.

The management also provided all Directors with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate directors' and officers' liability insurance for the Directors and officers of the Company in respect of legal action against them arising from the performance of their duties. The insurance policy covers directors' and officers' liability contract, company reimbursement contract, legal representation expenses contract and securities claims contract. Throughout the year ended 31 December 2014, no claim has been made against the Directors and officers of the Company.

Continuing Professional Development

Every Director keeps abreast of his responsibility as a Director and of the conduct, business activities and development of the Group. The Company regularly reviews the business development of the Group. The Company Secretary from time to time updates and provides written materials to the Directors, and organizes seminars on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices.

THE BOARD *(Continued)*

Continuing Professional Development *(Continued)*

Every newly appointed Director will be provided a comprehensive, formal and tailored induction so as to ensure he has appropriate understanding of the Group's business and of his duties and responsibilities under the Listing Rules and the relevant statutory requirements.

The Directors have complied with the code provision A.6.5 of the CG Code on continuous professional development by participating in appropriate continuous professional development to develop and refresh their knowledge and skills and providing the Company their records of training for the year ended 31 December 2014. The types of training attended by the Directors during the year are as follows:

Directors	Topic(s) covered *Notes*
Executive Directors	
Mr. Wu Xiang Dong	c,e
Mr. Yan Tao	c,e
Mr. Shu Shi Ping	c,e
Mr. Sun Jian Xin	c,e
Mr. Ng Kwong Chue, Paul	a,b,c,d,e
Mr. Zhang Jian	b
Independent non-executive Directors	
Mr. Ting Leung Huel, Stephen	a,b,d,e
Mr. E Meng	b,d,e
Mr. Cao Kuangyu	a,b,d

Notes:

a. Regulatory
b. Corporate Governance
c. Business
d. Finance
e. Managerial

CHAIRMAN AND CHIEF EXECUTIVE

The Company fully supports the division of responsibility between the chairman of the Board and the chief executive to ensure a balance of power and authority.

The positions of the chairman and the chief executive are currently held by Mr. Wu Xiang Dong and Mr. Shu Shi Ping respectively.

The chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information and appropriate briefing on issues arising at Board meetings in a timely manner.

The chief executive focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The chief executive is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established three Board committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs, details of which are as follows:

	Committee membership		
Name	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Mr. Wu Xiang Dong	C	M	
Mr. Yan Tao	M	M	
Mr. Shu Shi Ping			
Mr. Sun Jian Xin			
Mr. Ng Kwong Chue, Paul			
Mr. Zhang Jian			
Mr. Ting Leung Huel, Stephen	M	C	C
Mr. E Meng	M	M	M
Mr. Cao Kuangyu	M	M	M

Notes:

C Chairman of the relevant Board committees
M Member of the relevant Board committees

The written terms of reference of each of the Board committees, which set out the committees' major duties, are available on the websites of the Company and the Stock Exchange.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(1) Nomination Committee

The Nomination Committee was established on 31 July 2005 with specific terms of reference setting out the committee's authority and duties. The terms of reference were revised on 30 August 2013 followed by the adoption of the Board Diversity Policy. The Nomination Committee comprises two executive Directors namely Mr. Wu Xiang Dong (Chairman) and Mr. Yan Tao and three independent non-executive Directors namely Mr. Ting Leung Huel, Stephen, Mr. E Meng and Mr. Cao Kuangyu.

The Nomination Committee is responsible for, among other matters, the following:

- to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- to identify and nominate qualified individual for appointment as additional Director or to fill Board's casual vacancy for the Board's approval as and when the circumstances arise. In identifying suitable individual, it shall consider individual on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

BOARD COMMITTEES *(Continued)*

(1) Nomination Committee *(Continued)*

- to assess the independence of independent non-executive Directors and to review the independence non-executive Directors' annual confirmations with respect to their independence; and make disclosure of its review results in the Corporate Governance Report;

- to regularly review the time required for the Directors to perform their responsibilities and to assess if they are spending enough time to fulfill their duties;

- to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and chief executive; taking into consideration the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future;

- to ensure that on appointment to the Board, Directors receive a formal letter of appointment setting out clearly the key terms and conditions of their appointment;

- to review the Board Diversity Policy as appropriate and review the measurable objectives that the Board has set for implementing the Board Diversity Policy, the progress on achieving the objectives and make disclosure of its review results in the Corporate Governance Report annually;

- to do such things to enable the Nomination Committee to discharge its duties conferred on it by the Board; and

- to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or imposed by the Listing Rules or applicable laws.

During the year ended 31 December 2014, the Nomination Committee met once to assess the independence of the independent non-executive Directors and consider the re-election of the retiring Directors at the annual general meeting. The attendance of each member of the Nomination Committee is set out below:

Name of members	Number of attendance
Mr. Wu Xiang Dong (Chairman)	1/1
Mr. Yan Tao	1/1
Mr. Ting Leung Huel, Stephen	1/1
Mr. E Meng	1/1
Mr. Cao Kuangyu	1/1

(2) Remuneration Committee

The Remuneration Committee was established on 31 July 2005 with specific terms of reference setting out the committee's authority and duties. The Remuneration Committee comprises two executive Directors namely Mr. Wu Xiang Dong and Mr. Yan Tao and three independent non-executive Directors namely Mr. Ting Leung Huel, Stephen (Chairman), Mr. E Meng and Mr. Cao Kuangyu.

The Remuneration Committee is responsible for, among other matters, the following:

- to advise the Board on and to review of the remuneration policy and structure for all remuneration of the Directors and senior management;

BOARD COMMITTEES *(Continued)*

(2) Remuneration Committee *(Continued)*

- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- to make recommendations to the Board on the remuneration of non-executive Directors;
- to approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct;
- to address and deal with such other matters as may be delegated by the Board from time to time; and
- to ensure that no Director nor any of his close associates is involved in deciding his own remuneration.

Emolument Policy

The Directors are paid fees in line with market practice. The Group adopted the following main principles of determining the Directors' remuneration:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources; and
- Remuneration should reflect performance and responsibility with a view to attract, motivate and retain high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.

Remuneration Paid to Members of Senior Management

Details of remuneration paid to members of senior management fell within the following bands:

Remuneration bands	**Number of individuals**
Up to HK$1,000,000	7
HK$1,000,001 to HK$2,000,000	2

Particulars relating to Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the consolidated financial statements as set out on pages 94 to 95 of this annual report.

BOARD COMMITTEES *(Continued)*

(2) Remuneration Committee *(Continued)*

During the year ended 31 December 2014, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration packages of the Directors and senior management. The attendance of each member of the Remuneration Committee is set out as below:

Name of members	Number of attendance
Mr. Ting Leung Huel, Stephen (Chairman)	1/1
Mr. Wu Xiang Dong	1/1
Mr. Yan Tao	1/1
Mr. E Meng	1/1
Mr. Cao Kuangyu	1/1

(3) Audit Committee

The Audit Committee was established on 31 July 2005 with specific terms of reference setting out the committee's authority and duties. The Audit Committee comprises the three independent non-executive Directors namely Mr. Ting Leung Huel, Stephen (Chairman), Mr. E Meng and Mr. Cao Kuangyu with Mr. Ting Leung Huel, Stephen who possesses the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include, among other matters, the following:

(a) to review the financial statements and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal audit, compliance or external auditors before submission to the Board;

(b) to review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and

(c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year ended 31 December 2014, the Audit Committee held two meetings to review the interim and annual financial statements of the Group, consider the independence and re-appointment of the external auditors and review the financial reporting system, compliance procedures and internal control system of the Group. The attendance records of the Audit Committee members are set out below:

Name of members	Number of attendance
Mr. Ting Leung Huel, Stephen (Chairman)	2/2
Mr. E Meng	2/2
Mr. Cao Kuangyu	2/2

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2014 has been reviewed by the Audit Committee.

AUDITORS' REMUNERATION

For the year ended 31 December 2014, the remuneration paid/payable to the Company's external auditors, HLB Hodgson Impey Cheng Limited, in respect of their audit and non-audit services are set out as follows:

Type of services	Fee paid/payable
Audit services:	
Audit of annual financial statements	HK$1,000,000
Non-audit services:	
Review of continuing connected transactions	HK$200,000

In addition, fees of approximately HK$108,000 were paid to the PRC auditors for the auditing of the PRC subsidiaries of the Company.

The Audit Committee reviewed the independence of HLB Hodgson Impey Cheng Limited and has concluded that it is satisfied with the professional performance, and therefore recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the Company's auditors at the forthcoming annual general meeting.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibilities for preparing the financial statement of the Company for the year ended 31 December 2014 and presenting a balanced, clear and comprehensive assessment for the Group's performance, position and prospects.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of Messrs. HLB Hodgson Impey Cheng Limited, being the external auditors of the Company, reporting their responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 47 to 48.

INTERNAL CONTROL FRAMEWORK

Internal Control

The Company adopted the code provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code.

The Board has conducted a review of the effectiveness of the system of internal control of the Group and is satisfied with the findings.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and the Board regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

INTERNAL CONTROL FRAMEWORK *(Continued)*

Internal Control *(Continued)*

All internal control systems, no matter how well designed, have inherent limitations due to human controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management maintains a comprehensive system of controls to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and the internal control procedures are being followed. The effectiveness of the Company's internal control is assessed based on the criteria set forth by the VATS Group's Internal Control – Integrated Framework.

Based on this assessment which covers all material controls including financial, operational and compliance controls and risk management functions, management believes that, as of 31 December 2014, the Company's internal control over financial reporting is effective. Management's assessment of the effectiveness of the Company's internal control has been reviewed by the Audit Committee which agreed on management's assessment. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Board is fully aware of its obligations under Part XIVA of the Securities and Futures Ordinance and the Listing Rules, and conducts its affairs with due regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

COMPANY SECRETARY

Mr. Ng Kwong Chue, Paul, being the Company Secretary and the executive Director, plays an important role in supporting the Board by ensuring good information flow within the Board and that the Board policy and procedures are followed.

The Company Secretary has day-to-day knowledge of the Company's affairs. He reports to the Board through the chairman and chief executive. All Directors may access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters.

The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

During the year ended 31 December 2014, Mr. Ng Kwong Chue, Paul has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules. Details of his training are set out in the section of 'Continuing Professional Development' on page 38 of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board recognises the importance of effective communication with the shareholders and investors. The Company communicates with its shareholders and investors through various channels including publication of interim and annual reports, announcements, circulars and publications which are all available on the websites of the Stock Exchange and the Company. Corporate communications issued by the Company have been provided to the shareholders in both English and Chinese versions for better understanding.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS *(Continued)*

Designated executive Director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong or email at investor@jlfinvestment.com for any inquiries.

In order to provide shareholders with information about the Company, to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner, the Company has a 'shareholders communication policy' which is available on the Company's website. The Board shall review the policy regularly to ensure its effectiveness and efficiency.

At general meetings, each substantially separate issue has been considered by a separate resolution, including the election of individual Director. The chairman of the Board, chairmen of the respective Board committees, senior management and the external auditors are normally available to answer questions at the shareholders' meetings.

During the year, one general meeting was held. The 2014 annual general meeting held on 16 June 2014 was attended by, among others, the vice-chairman of the Board, executive Director, chairmen of the Audit Committee and Remuneration Committee, and representatives of Hodgson Impey Cheng Limited, the external auditors of the Company, to answer any questions raised by shareholders. The attendance records of the Directors are set out below:

Directors	Number of attendance
Executive Directors:	
Mr. Wu Xiang Dong	0/1
Mr. Yan Tao	1/1
Mr. Shu Shi Ping	0/1
Mr. Sun Jian Xin	0/1
Mr. Ng Kwong Chue, Paul	1/1
Mr. Zhang Jian	0/1
Independent non-executive Directors:	
Mr. Ting Leung Huel, Stephen	1/1
Mr. E Meng	0/1
Mr. Cao Kuangyu	0/1

Constitutional Documents

During the year ended 31 December 2014, there was no change to the Company's constitutional documents. A consolidated version of the Memorandum of Association and the Bye-laws is available on the websites of the Company and the Stock Exchange.

SHAREHOLDERS' RIGHTS

Procedure for shareholders to convene a special general meeting

Pursuant to bye-law 58 of the Bye-laws, shareholder(s) holding at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to request a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/themselves may do so in the same manner.

SHAREHOLDERS' RIGHTS *(Continued)*

Procedure for shareholders to put forward proposals at general meetings

Shareholders can submit a requisition to move a resolution at general meetings pursuant to the Companies Act 1981 of Bermuda. The number of shareholders necessary for a requisition shall be:

- either representing not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the meeting; or
- not less than 100 shareholders.

The written requisitions must:

- state the resolution, with a statement not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the meeting;
- be signed by all the requisitionists (may consist of several documents in like form each signed by one or more requisitionists); and
- be deposited at the head office of the Company in Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in case of a requisitionist requiring notice of a resolution and not less than one week before the meeting in case of any other requisition.

With respect to proposing a person for election as a Director, the procedures can be accessible on the Company's website.

Shareholders enquiries to the Board

Shareholders may send their enquiries to the Board in writing with contact details, including registered name, address, telephone number and email address, to the Company Secretary as follows:

Address:	Suite 1905B, 19/F., Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong
Telephone:	(852) 2591 9919
Fax:	(852) 2575 0999
Email:	investor@jlfinvestment.com

Any matter in relation to the transfer of shares, change of name or address, loss of share certificates should be addressed to the Company's Hong Kong branch share registrar and transfer agent as follows:

Tricor Progressive Limited
Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

Tel:	(852) 2980 1333
Fax:	(852) 2861 1465

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
JLF INVESTMENT COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of JLF Investment Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 119, which comprise the consolidated and Company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 27 March 2015

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	7	**255,379**	336,563
Cost of sales		**(147,037)**	(172,635)
Gross profit		**108,342**	163,928
Other revenue	9	**12,619**	17,610
Selling and distribution expenses		**(96,466)**	(98,886)
Administrative expenses		**(69,629)**	(63,124)
Other operating expenses		**(178,732)**	(87,715)
Loss from operating activities	10	**(223,866)**	(68,187)
Finance costs	12	**(3,947)**	(3,918)
Loss before taxation		**(227,813)**	(72,105)
Taxation	13	**1,911**	(7,660)
Loss for the year		**(225,902)**	(79,765)
Attributable to:			
Owners of the Company	14	**(193,044)**	(81,975)
Non-controlling interests		**(32,858)**	2,210
		(225,902)	(79,765)
Loss per share attributable to owners of the Company			
Basic and diluted	16	**HK(11.57) cents**	HK(4.91) cents

The accompanying notes form an integral part of these consolidated financial statements.

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Loss for the year	**(225,902)**	(79,765)
Other comprehensive (expense) income, net of income tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of foreign operations	**(10,713)**	15,192
Total comprehensive expense for the year	**(236,615)**	(64,573)
Attributable to:		
Owners of the Company	**(200,650)**	(68,495)
Non-controlling interests	**(35,965)**	3,922
	(236,615)	(64,573)

Consolidated Statement of Financial Position

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Land use rights	17	**27,678**	29,079
Property, plant and equipment	18	**294,520**	300,457
Intangible assets	19	**9,192**	36,582
Available-for-sale investment	20	**1,810**	1,847
Goodwill	21	**–**	144,449
		333,200	512,414
Current assets			
Inventories	23	**248,056**	246,293
Trade and bills receivables	24	**23,052**	39,450
Prepayments, deposits paid and other receivables	25	**32,659**	77,609
Tax recoverable		**1,270**	–
Cash and cash equivalents	26	**105,455**	141,623
		410,492	504,975
Total assets		**743,692**	1,017,389

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	**2014 HK$'000**	2013 HK$'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	27	**16,685**	16,685
Reserves		**378,725**	579,375
		395,410	596,060
Non-controlling interests		**66,039**	102,004
Total equity		**461,449**	698,064
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	29	**15,711**	22,736
Bank borrowing – due after one year	33	**–**	64,445
		15,711	87,181
Current liabilities			
Trade payables	30	**48,548**	49,667
Accruals, deposits received and other payables	31	**152,402**	174,727
Amounts due to a related party	32	**1,263**	1,289
Bank borrowing – due within one year	33	**63,150**	–
Tax payables		**1,169**	6,461
		266,532	232,144
Total liabilities		**282,243**	319,325
Total equity and liabilities		**743,692**	1,017,389
Net current assets		**143,960**	272,831
Total assets less current liabilities		**477,160**	785,245

Approved and authorised for issue by the Board of Directors on 27 March 2015 and are signed on its behalf by:

Wu Xiang Dong
Director

Yan Tao
Director

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Financial Position

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	**88**	37
Interests in subsidiaries	22	**383,083**	393,185
		383,171	393,222
Current assets			
Prepayments, deposits paid and other receivable	25	**812**	1,124
Cash and cash equivalents	26	**4,500**	7,351
		5,312	8,475
Total assets		**388,483**	401,697
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	27	**16,685**	16,685
Reserves	28	**368,715**	381,922
Total equity		**385,400**	398,607
LIABILITIES			
Current liabilities			
Accruals and other payables	31	**3,083**	3,090
Total liabilities		**3,083**	3,090
Total equity and liabilities		**388,483**	401,697
Net current assets		**2,229**	5,385
Total assets less current liabilities		**385,400**	398,607

Approved and authorised for issue by the Board of Directors on 27 March 2015 and are signed on its behalf by:

Wu Xiang Dong
Director

Yan Tao
Director

The accompanying notes form an integral part of these financial statements.

For the year ended 31 December 2014

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Retained earnings/ (Accumulated losses) HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK'000
At 1 January 2013	16,685	409,918	63,971	33,641	356	139,984	664,555	98,082	762,637
(Loss) profit for the year	–	–	–	–	–	(81,975)	(81,975)	2,210	(79,765)
Other comprehensive income	–	–	13,480	–	–	–	13,480	1,712	15,192
Total comprehensive income (expense) for the year	–	–	13,480	–	–	(81,975)	(68,495)	3,922	(64,573)
Appropriation to the statutory reserve	–	–	–	463	–	(463)	–	–	–
At 31 December 2013 and 1 January 2014	**16,685**	**409,918**	**77,451**	**34,104**	**356**	**57,546**	**596,060**	**102,004**	**698,064**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(193,044)**	**(193,044)**	**(32,858)**	**(225,902)**
Other comprehensive expense	**–**	**–**	**(7,606)**	**–**	**–**	**–**	**(7,606)**	**(3,107)**	**(10,713)**
Total comprehensive expense for the year	**–**	**–**	**(7,606)**	**–**	**–**	**(193,044)**	**(200,650)**	**(35,965)**	**(236,615)**
Appropriation to the statutory reserve	**–**	**–**	**–**	**494**	**–**	**(494)**	**–**	**–**	**–**
At 31 December 2014	**16,685**	**409,918***	**69,845***	**34,598***	**356***	**(135,992)***	**395,410**	**66,039**	**461,449**

* These reserve accounts comprise the consolidated reserve of approximately HK$378,725,000 (2013: HK$579,375,000) in the consolidated statement of financial position.

SHARE PREMIUM

The application of share premium account is governed by Section 40 of the Companies Act 1981 (as amended) of Bermuda.

TRANSLATION RESERVE

Exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. The reserve is dealt with in accordance with the accounting policy of foreign currencies set out in note 3(m).

STATUTORY RESERVE

Statutory reserve represents the appropriation of 10% of profit after taxation, calculated in accordance with the accounting standards and regulations applicable to subsidiaries of the Company established in the People's Republic of China (the "PRC"). When the balance of such statutory reserve reaches 50% of the entity's registered capital, any further appropriation is optional.

OTHER RESERVE

Other reserve represents the difference between the consideration paid to obtain additional non-controlling interests in Yantai Shangri-la Masang Château Company Limited and its carrying amount on the date of the acquisition.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Loss before taxation		**(227,813)**	(72,105)
Adjustments for:			
Bank Interest income	9	**(424)**	(314)
Dividend income from unlisted securities	9	**(112)**	(65)
Impairment losses of trade and other receivables	10	**–**	82
Impairment loss of goodwill	10	**144,449**	33,510
Impairment loss of trademark	10	**26,355**	–
Write-down of obsolete inventories	10	**7,928**	54,205
Reversal of impairment losses of trade and other receivables	9	**–**	(215)
Depreciation of property, plant and equipment	18	**22,437**	23,183
Amortisation of intangible assets and land use rights	17,19	**1,258**	1,317
Loss on disposal of property, plant and equipment	10	**1,678**	2,757
Interest expenses	12	**3,947**	3,857
Operating cash flows before movements in working capital		**(20,297)**	46,212
Decrease (increase) in trade and bills receivables, prepayments, deposits paid and other receivables		**59,019**	(37,358)
(Increase) decrease in inventories		**(14,640)**	8,645
Decrease in amounts due to related parties		**–**	(7,497)
(Decrease) increase in trade payables, accruals, deposits received and other payables		**(18,997)**	41,207
Cash generated from operations		**5,085**	51,209
Taxation paid		**(11,085)**	(12,222)
Interest paid		**(3,947)**	(3,857)
Net cash (used in) generated from operating activities		**(9,947)**	35,130
Cash flows from investing activities			
Bank Interest received		**424**	314
Dividend received from unlisted securities		**112**	65
Purchase of property, plant and equipment		**(24,122)**	(30,719)
Net cash used in investing activities		**(23,586)**	(30,340)
Cash flows from financing activities			
Proceeds from bank borrowing		**–**	63,623
Repayment of bank borrowing		**–**	(63,623)
Net cash used in financing activities		**–**	–
Net (decrease) increase in cash and cash equivalents		**(33,533)**	4,790
Cash and cash equivalents at the beginning of the year		**141,623**	132,877
Effect of exchange rate changes on the balance of cash held in foreign currency		**(2,635)**	3,956
Cash and cash equivalents at the end of the year		**105,455**	141,623
Analysis of the balances of cash and cash equivalents			
Time deposits and banks balances and cash		**105,455**	141,623

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company is an exempted company incorporated in Bermuda with limited liability and its issued shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is VATS Group Limited, a company incorporated in the PRC.

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are engaged in the production and distribution of wine and Chinese baijiu.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(i) Revised HKFRSs and the new interpretation adopted by the Group

In the current year, the Group has applied the following revised HKFRSs and the new interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2014:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The adoption of these amendments in the current year has no material impact on the Group's financial performance and positions for the current and prior years.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted
3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted
4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted
5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investment may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKAS 28 will have a material effect on the Group's consolidated financial statements.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 *Impairment of Assets* regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements.

- At cost
- In accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments. The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First time Adoption of Hong Kong Financial Reporting Standards*.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

Annual Improvements to HKFRSs 2010 – 2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

Annual Improvements to HKFRSs 2011 – 2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012 – 2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting*.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2014 *(Continued)*

Annual Improvements to HKFRSs 2012 – 2014 Cycle *(Continued)*

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA as well as the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventory* or value in use in HKAS 36 *Impairment of Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(e) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit ("CGU") to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Service income is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Subsidy income

Subsidy income, when there is reasonable assurance that the subsidy will be received and attaching conditions have been complied with.

(g) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Government grants *(Continued)*

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

The cost of buildings is depreciated using straight-line method over their estimated useful lives of fifty years or, where shorter, the period of the relevant leases.

Construction in progress includes properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. No depreciation is provided for construction in progress. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20% or over the period of the relevant lease
Plant and building	over the period of the relevant lease
Machinery	10% – 25%
Tools, equipment and moulds	10% – 50%
Furniture and fixtures	10% – 25%
Motor vehicles	10% – 33⅓%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

AFS financial assets *(Continued)*

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including trade and bills receivables, deposits paid and other receivables and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity instruments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Other financial liabilities

Other financial liabilities including trade payables, accruals and other payables, amount due to a related party and bank borrowing are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Derecognition *(Continued)*

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average basis comprises materials, direct labour and an appropriate portion of production overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Taxation *(Continued)*

Deferred tax *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(l) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, office premises and processing factories are situated. Amortisation of land use rights are calculated on a straight-line basis over the period of the land use rights of 30 to 50 years.

(m) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Foreign currencies *(Continued)*

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(n) Employee benefits

(i) Retirement benefits costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

(ii) Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated statement of profit or loss.

(p) Intangible assets

Farmland development

Farmland development represents deferred expenditures including farmland expenditures and cost for preparation works. Farmland development has been capitalised as assets where the costs are identifiable and the ability to use the asset will generate probable future economic benefits.

Farmland development are amortised over the period in which the related benefits are expected to be realised. Farmland development is reviewed annually to determine the amount, if any, that is no longer recoverable and any such amount is written off to the consolidated statement of profit or loss in the year of determination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Intangible assets *(Continued)*

Trademarks

On initial recognition, trademarks acquired separately and from business combinations are recognised at cost and at fair value at the acquisition date respectively. The fair value of intangible assets acquired in business combination is determined based on the discount cash flow forecast of the projection of profit streams from trademarks held by subsidiaries at the date of acquisition. After initial recognition, trademarks are recorded at cost less accumulated amortisation (where the estimated useful life are finite) and impairment loss.

Trademarks with definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives.

Trademarks with indefinite useful lives are not amortised but are tested for impairment annually, and whenever there is an indication that they may be impaired, by comparing their carrying amounts with their recoverable amounts. An impairment loss is recognised immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Technical know-how

Technical know-how is recognised only if it is anticipated that the technical know-how incurred on a clear-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life of 5 years.

(q) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with definite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Impairment of tangible and intangible assets other than goodwill *(Continued)*

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including time deposits, and assets similar in nature to cash, which are not restricted as to use.

(s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economics benefits is probable. When inflow is virtually certain, an asset is recognised.

(w) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The up-front prepayments made for the land use rights are expensed in the consolidated statement of profit or loss on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Operating segment

Operating segment is reported in a manner consistent with the internal management reporting provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, financial assets and other assets. Segment liabilities comprise financial liabilities and other liabilities. The Group evaluates performance on the basis of profit or loss from operations after tax expenses and non-controlling interest.

(y) Related parties

A related party is a person or entity that is related to the Group that is preparing its financial statements as follows:

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. FINANCIAL INSTRUMENTS

4.1 Categories of financial instruments

	2014 HK$'000	2013 HK$'000
Financial assets		
Available-for-sale investment	**1,810**	1,847
Loan and receivables (including cash and cash equivalents)	**140,722**	196,569
Financial liabilities		
Amortised cost	**163,285**	156,765

4.2 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks such as market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk, which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the Board meets periodically to analyse and formulate strategies to manage the Group's exposure to these financial risks. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

There has been no changes to the types of the Group's exposures in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

(a) Foreign currency risk management

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign currency risk arising from fluctuation in Renminbi ("RMB"). Foreign currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

There is no material foreign exchange risk noted for the Group as:

– the transactions of the Company are mainly denominated in Hong Kong dollars, which is the functional currency of the Company; and

– the operations and customers of the Group's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in RMB, which is the functional currency of the Group's subsidiaries.

(b) Cash flow and fair value interest rate risk management

The Group has exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank borrowings which carry at prevailing market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest rate risk relates primarily to its variable-rate bank borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arises.

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

(b) Cash flow and fair value interest rate risk management (Continued)

Interest rate sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates of variable rate bank balances and borrowings. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability and bank balances outstanding at the end of each reporting period was outstanding for the whole year.

If interest rates had been increased or decreased by 50 basis point with all other variables held constant, the Group's loss for the year ended 31 December 2014 would increase/decrease by approximately HK$316,000 (2013: loss would increase/decrease by HK$322,000).

Credit risk management

The Group has policies in place to ensure that wholesale of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk in relation to trade and bills receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

Since the Group trades only with customers with an appropriate credit history, there is no requirement for collateral. The management monitored the financial background and creditability of those debtors on an ongoing basis.

Collateral held as security and other credit enhancements

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Concentration of credit risk

Trade and bills receivables of approximately HK$23,052,000 (2013: HK$39,450,000) included due from two related parties of HK$17,969,000 (2013: HK$29,811,000), which represented approximately 77.9% (2013: 75.6%) of total trade and bills receivables at the end of the reporting period.

4. FINANCIAL INSTRUMENTS *(Continued)*

4.2 Financial risk management objectives and policies *(Continued)*

Liquidity risk management

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. The Group consistently measures and maintains a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on undiscounted contractual cash flows (including interest payment computed using contractual rates) and the earliest date the Group can be required to pay:

Liquidity tables

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flows HK$'000	Total carrying amount HK$'000
At 31 December 2014						
Non-derivative financial liabilities						
Trade payables	**–**	**48,548**	**–**	**–**	**48,548**	**48,548**
Accruals and other payables	**–**	**50,324**	**–**	**–**	**50,324**	**50,324**
Amount due to a related party	**–**	**1,263**	**–**	**–**	**1,263**	**1,263**
Bank borrowing	**6.22%**	**66,098**	**–**	**–**	**66,098**	**63,150**
		166,233	**–**	**–**	**166,233**	**163,285**
At 31 December 2013						
Non-derivative financial liabilities						
Trade payables	–	49,667	–	–	49,667	49,667
Accruals and other payables	–	41,364	–	–	41,364	41,364
Amount due to a related party	–	1,289	–	–	1,289	1,289
Bank borrowing	6.06%	–	64,682	–	64,682	64,445
		92,320	64,682	–	157,002	156,765

4. FINANCIAL INSTRUMENTS *(Continued)*

4.3 Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair values measured using valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Fair values measured using valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values and no analysis is disclosed as the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

During the years ended 31 December 2014 and 2013, there were no transfers between the levels of fair value hierarchy.

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from year 2013.

In order to maintain with industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) and total capital is calculated as "equity", as shown in the consolidated statement of financial position.

Gearing Ratio

The gearing ratios as at 31 December 2014 and 2013 were as follows:

	2014 **HK$'000**	2013 HK$'000
Total borrowings	**63,150**	64,445
Less: cash and cash equivalents	**(105,455)**	(141,623)
	(42,305)	(77,178)
Total equity	**461,449**	698,064
Gearing ratio*	**N/A**	N/A

* As the Group was in net cash position for the current and prior years, no gearing ratio is presented.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3(e). The recoverable amounts of CGUs are determined based on value-in-use calculation. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill as at 31 December 2014 was HK$Nil (2013: approximately HK$144,449,000). Details of the impairment test of goodwill are set out in note 21.

(b) Impairment of intangible assets

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using and appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Impairment of available-for-sale investment

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale investment is other than temporarily impaired. In making the judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Company will hold on this investment.

(d) Impairment of trade receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivable balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of profit or loss. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(e) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(f) Useful lives of intangible assets

Intangible assets except for those with indefinite lives are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(g) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(h) Write-down of inventories

If the costs of inventories fall below their net realisable values, write-down of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion and other distribution costs were to be higher than estimated, the write-down of inventories could be higher than estimated.

(i) Current taxation and deferred taxation

The Group is subject to Hong Kong Profits Tax and PRC Corporate Income Tax. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred assets and income tax expenses in the periods in which such estimate is changed.

7. TURNOVER

	2014 **HK$'000**	2013 HK$'000
Production and distribution of wine	**161,607**	190,628
Production and distribution of Chinese baijiu	**93,772**	145,935
	255,379	336,563

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting framework, the Group has identified operating segments based on similar products. The operating segments are identified by senior management who is designated as "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance.

The Group has two reportable segments, namely (i) production and distribution of wine and (ii) production and distribution of Chinese baijiu. The segmentations are based on the information of the Group's operation that management uses to make decisions.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments for the current and prior years:

	Wine		Chinese baijiu		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Revenue from external customers	**161,607**	190,628	**93,772**	145,935	**255,379**	336,563
Segment (loss) profit	**(109,855)**	(70,721)	**(100,787)**	16,771	**(210,642)**	(53,950)
Unallocated corporate income					**847**	851
Unallocated corporate expenses					**(14,071)**	(15,088)
Finance costs					**(3,947)**	(3,918)
Loss before taxation					**(227,813)**	(72,105)
Taxation					**1,911**	(7,660)
Loss for the year					**(225,902)**	(79,765)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment results represented the (loss incurred) profit earned by each segment without allocation of central administration costs including directors' emoluments, finance costs and taxation. This is the measure reported to the Chief Operating Decision Maker for the purpose of resource allocation and assessment of segment performance.

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments for the current and prior years:

	Wine		Chinese baijiu		Total	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Segment assets	**497,004**	609,451	**241,111**	398,984	**738,115**	1,008,435
Unallocated					**5,577**	8,954
					743,692	1,017,389
Segment liabilities	**143,287**	142,174	**56,260**	86,137	**199,547**	228,311
Unallocated					**82,696**	91,014
					282,243	319,325

For the purpose of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments except for certain assets which are managed on a group basis. Goodwill and all liabilities are allocated to reportable segments except for bank borrowing, deferred tax liabilities and other financial liabilities which are managed on a group basis.

Other segment information

The following is an analysis of the Group's other segment information for the current and prior years:

	Wine		Chinese baijiu		Total	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Additions to non-current assets	**18,917**	13,719	**5,144**	17,000	**24,061**	30,719
Depreciation of property, plant and equipment	**15,398**	15,966	**7,029**	7,217	**22,427**	23,183
Amortisation of land use rights	**234**	237	**587**	596	**821**	833
Amortisation of intangible assets	**437**	484	**–**	–	**437**	484
Impairment losses of trade and other receivables	**–**	–	**–**	82	**–**	82
Write-down of obsolete inventories	**–**	54,205	**7,928**	–	**7,928**	54,205
Impairment loss of goodwill	**96,918**	33,510	**47,531**	–	**144,449**	33,510
Impairment loss of trademark	**–**	–	**26,355**	–	**26,355**	–

Information about major customers

Included in revenue of approximately HK$27,684,000 (2013: HK$33,832,000) and HK$16,184,000 (2013: HK$25,639,000) arose from sales to the Group's largest customers for the wine segment and Chinese baijiu segment respectively. No other single customer contributed 10% or more to the Group's revenue for both years 2014 and 2013.

8. SEGMENT INFORMATION *(Continued)*

Geographical information

Over 90% of the Group's turnover and results were derived from the PRC. Accordingly, no geographical segment analysis is presented.

As at the end of the reporting period, over 90% of the identifiable assets of the Group were located in the PRC. Accordingly, no geographical segment analysis on the carrying amount of segment assets or additions to property, plant and equipment is presented.

9. OTHER REVENUE

	2014 HK$'000	2013 HK$'000
Government grants (note 40)	**10,461**	14,224
Bank interest income	**424**	314
Dividend income	**112**	65
Reversal of impairment losses of trade and other receivables	**–**	215
Service income (note 39)	**744**	744
Sales of wasted materials	**470**	871
Sales of grape seedlings	**–**	722
Others	**408**	455
	12,619	17,610

10. LOSS FROM OPERATING ACTIVITIES

	2014 HK$'000	2013 HK$'000
Loss from operating activities has been arrived at after charging:		
Staff costs, including directors' emoluments		
– Salaries and allowances	**44,838**	46,619
– Retirement benefits scheme contributions	**10,428**	11,022
Total staff costs	**55,266**	57,641
Auditors' remuneration	**1,108**	1,094
Amortisation of intangible assets	**437**	484
Amortisation of land use rights	**821**	833
Cost of inventories recognised as expenses	**119,943**	142,340
Loss on disposal of property, plant and equipment	**1,678**	2,757
Write-down of obsolete inventories*	**7,928**	54,205
Impairment losses of trade and other receivables	**–**	82
Impairment loss of goodwill*	**144,449**	33,510
Impairment loss of trademark*	**26,355**	–
Depreciation of property, plant and equipment	**22,437**	23,183
Research and development costs	**60**	28
Minimum lease payments under operating leases:		
– Land and building	**1,771**	1,414

* These items are included in "Other operating expenses" in the consolidated statement of profit or loss.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

For the year ended 31 December 2014, the emoluments paid or payable to each of the nine (2013: nine) directors and the chief executive were as follows:

For the year ended 31 December 2014 and 2013:

	Fees		Salaries, allowance and benefits in kind		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Wu Xiang Dong	–	–	1,900	1,300	–	–	17	15	1,917	1,315
Yan Tao	–	–	209	100	–	–	–	–	209	100
Shu Shi Ping [Note]	–	–	428	597	–	–	–	3	428	600
Sun Jian Xin	–	–	100	100	–	–	–	–	100	100
Ng Kwong Chue, Paul	–	–	1,568	1,453	–	–	17	15	1,585	1,468
Zhang Jian	–	–	100	100	–	–	–	–	100	100
Ting Leung Huel, Stephen	360	310	–	–	–	–	–	–	360	310
E Meng	150	150	–	–	–	–	–	–	150	150
Cao Kuangyu	150	150	–	–	–	–	–	–	150	150
	660	610	4,305	3,650	–	–	34	33	4,999	4,293

Note: Mr. Shu Shi Ping is a chief executive and executive director of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors of the Company waived any emoluments for the year ended 31 December 2014 (2013: Nil).

None of the directors and the chief executive, or any of the non-director and the non-chief executive, highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2013: None).

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2013: three) were directors of the Company whose emoluments are set out in note (a) above. For the year ended 31 December 2014, the emolument of the remaining one (2013: two) individual(s) is as follows:

	2014 HK$'000	2013 HK$'000
Salaries and other benefits	312	1,189
Retirement benefits scheme contribution	14	23
Performance related incentive payments	–	–
	326	1,212

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments *(Continued)*

The emoluments of the one individual with the highest emoluments are within the following band:

	2014 Number of individual	2013 Number of individuals
Up to HK$1,000,000	**1**	2
	1	2

(c) Emoluments of senior management

The emoluments of senior management fell within the following bands:

	2014 Number of individuals	2013 Number of individuals
Up to HK$1,000,000	**7**	7
HK$1,000,001 to HK$2,000,000	**2**	2
	9	9

12. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on bank borrowing:		
– wholly repayable within five years	**3,947**	3,857
Bank charges	**–**	61
	3,947	3,918

13. TAXATION

	2014 **HK$'000**	2013 HK$'000
Current tax:		
Hong Kong Profits Tax	**11**	–
The PRC Corporate Income Tax		
– current year	**3,345**	7,575
– under-provision in prior year	**1,322**	85
Deferred tax	**(6,589)**	–
	(1,911)	7,660

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for both years.

As at 31 December 2014, the Group had estimated unused tax losses of approximately HK$87,478,000 (2013: HK$75,497,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Corporate Income Tax

On 16 March 2007, the Fifth Plenary Session of the Tenth National people's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law") which became effective on 1 January 2008 when the income tax rules and regulations of the PRC applicable to foreign investment enterprises was abolished. The New Tax Law adopts a uniform tax of 25% of all enterprises including foreign investment enterprises.

During the year ended 31 December 2011, Shangri-la Winery Company Limited has successfully applied a tax reduction with the tax rate of 15% from Yunnan State Administration of Taxation of the PRC for 3 years starting from 1 January 2011 and was expired on 31 December 2013. During the year ended 31 December 2014, the tax reduction was renewed by Yunnan State Administration of Taxation of the PRC for 3 years starting from 1 January 2014 and the tax rate was 20%.

The tax rate applicable for all other subsidiaries established in the PRC was 25% (2013: 25%).

13. TAXATION *(Continued)*

Reconciliation between tax expenses and loss before taxation at applicable tax rates

A reconciliation of the tax expenses applicable to loss before taxation at the statutory tax rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/credit at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

The Group – 2014

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before taxation	(110,061)		(117,752)		(227,813)	
Tax at the statutory tax rates	(18,160)	16.5	(29,437)	25.0	(47,597)	20.9
Tax effect of tax losses not recognised	1,977	(1.8)	8,552	(7.3)	10,529	(4.6)
Tax effect of income not taxable for tax purpose	(14)	–	(6,077)	5.2	(6,091)	2.7
Tax effect of expenses not deductible for tax purpose	16,208	(14.7)	17,314	(14.7)	33,522	(14.7)
Effect of tax exemptions granted to the PRC subsidiaries	–	–	(172)	0.1	(172)	0.1
Tax losses utilised from previous period	–	–	(13)	–	(13)	–
Tax effect of temporary difference not recognised	–	–	6,589	(5.6)	6,589	(2.9)
Under provision in prior year	–	–	1,322	(1.1)	1,322	(0.6)
Tax charge (credit) for the year	11	–	(1,922)	1.6	(1,911)	0.9

The Group – 2013

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before taxation	(47,740)		(24,365)		(72,105)	
Tax at the statutory tax rates	(7,877)	16.5	(6,091)	25.0	(13,968)	19.4
Tax effect of tax losses not recognised	1,991	(4.2)	15,181	(62.3)	17,172	(23.9)
Tax effect of income not taxable for tax purpose	(18)	0.1	(9,273)	38.1	(9,291)	12.9
Tax effect of expenses not deductible for tax purpose	5,904	(12.4)	8,390	(34.5)	14,294	(19.9)
Effect of tax exemptions granted to the PRC subsidiaries	–	–	(632)	2.6	(632)	0.9
Under provision in prior year	–	–	85	(0.3)	85	–
Tax charge for the year	–	–	7,660	(31.4)	7,660	(10.6)

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's consolidated loss for the year of approximately HK$225,902,000 (2013: HK$79,765,000) of which net loss attributable to owners of the Company for the year of approximately HK$13,208,000 (2013: HK$14,209,000) is dealt with in the financial statements of the Company.

15. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2014 (2013: Nil).

16. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	2014	2013
	HK$'000	HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per ordinary share	**(193,044)**	(81,975)

	Number of shares	
	2014	2013
Weighted average number of shares for the purpose of basic and diluted loss per ordinary share	**1,668,532,146**	1,668,532,146

Diluted loss per share were same as the basic loss per share as there were no potential dilutive ordinary shares in both years.

17. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and its carrying amount are analysed as follows:

	2014 **HK$'000**	2013 HK$'000
Outside Hong Kong, held on:		
Lease period between 30 to 50 years	**27,678**	29,079
Cost		
At 1 January	**34,575**	33,690
Exchange alignment	**(695)**	885
At 31 December	**33,880**	34,575
Accumulated amortisation		
At 1 January	**5,496**	4,543
Exchange alignment	**(115)**	120
Charge for the year	**821**	833
At 31 December	**6,202**	5,496
Carrying amounts		
At 31 December	**27,678**	29,079

Land use rights comprise cost of acquiring rights to use certain land which are all located in the PRC over fixed periods. Cost of land use rights is amortised on a straight-line basis over the unexpired period of rights.

Assets pledged as security

As at 31 December 2014, the Group's land use rights with carrying amount of approximately HK$422,000 (2013: HK$441,000) were pledged as security for the Group's bank borrowing.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress HK$'000	Plant and building HK$'000	Machinery HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2013	115,118	118,953	116,392	999	2,493	10,328	364,283
Exchange alignment	3,025	3,124	3,057	–	65	271	9,542
Transfer to plant and building and machinery	(23,799)	13,879	9,920	–	–	–	–
Additions	25,494	1,212	2,284	39	982	708	30,719
Elimination upon disposals	–	(2,562)	(678)	–	(385)	–	(3,625)
At 31 December 2013 and 1 January 2014	119,838	134,606	130,975	1,038	3,155	11,307	400,919
Exchange alignment	(2,407)	(2,704)	(2,632)	–	(62)	(228)	(8,033)
Transfer to plant and building and machinery	(1,493)	–	1,493	–	–	–	–
Additions	19,764	84	3,063	61	942	208	24,122
Elimination upon disposals	–	(284)	(5,054)	–	(38)	(744)	(6,120)
At 31 December 2014	135,702	131,702	127,845	1,099	3,997	10,543	410,888
Accumulated depreciation							
At 1 January 2013	–	28,253	42,110	928	1,174	3,705	76,170
Exchange alignment	–	742	1,106	–	31	98	1,977
Charge for the year	–	5,761	15,509	73	212	1,628	23,183
Elimination upon disposals	–	(721)	(42)	–	(105)	–	(868)
At 31 December 2013 and 1 January 2014	–	34,035	58,683	1,001	1,312	5,431	100,462
Exchange alignment	–	(712)	(1,235)	–	(29)	(113)	(2,089)
Charge for the year	–	5,887	14,552	10	632	1,356	22,437
Elimination upon disposals	–	(159)	(3,601)	–	(37)	(645)	(4,442)
At 31 December 2014	–	39,051	68,399	1,011	1,878	6,029	116,368
Carrying amounts							
At 31 December 2014	**135,702**	**92,651**	**59,446**	**88**	**2,119**	**4,514**	**294,520**
At 31 December 2013	119,838	100,571	72,292	37	1,843	5,876	300,457

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Office equipment HK$'000
Cost	
At 1 January 2013	999
Additions	39
At 31 December 2013 and 1 January 2014	1,038
Additions	61
At 31 December 2014	1,099
Accumulated depreciation	
At 1 January 2013	928
Charge for the year	73
At 31 December 2013 and 1 January 2014	1,001
Charge for the year	10
At 31 December 2014	1,011
Carrying amounts	
At 31 December 2014	**88**
At 31 December 2013	37

Assets pledged as security

As at 31 December 2014, the Group's building with carrying amount of approximately HK$26,973,000 and plant and machinery with carrying amount of approximately HK$11,448,000 (2013: building: HK$28,865,000, and plant and machinery: HK$15,273,000) were pledged as security for the Group's bank borrowing.

The buildings located in the PRC with a lease term of 30 to 50 years.

19. INTANGIBLE ASSETS

	Farmland development HK$'000	Technical know-how HK$'000	Trademarks HK$'000	Total HK$'000
Cost				
At 1 January 2013	15,962	1,912	26,830	44,704
Exchange alignment	419	50	705	1,174
At 31 December 2013 and 1 January 2014	16,381	1,962	27,535	45,878
Exchange alignment	(308)	(39)	(554)	(901)
At 31 December 2014	16,073	1,923	26,981	44,977
Accumulated amortisation and impairment				
At 1 January 2013	6,013	1,912	662	8,587
Exchange alignment	158	50	17	225
Charge for the year	414	–	70	484
At 31 December 2013 and 1 January 2014	6,585	1,962	749	9,296
Exchange alignment	(112)	(39)	(152)	(303)
Charge for the year	408	–	29	437
Impairment for the year	–	–	26,355	26,355
At 31 December 2014	6,881	1,923	26,981	35,785
Carrying amounts				
At 31 December 2014	**9,192**	**–**	**–**	**9,192**
At 31 December 2013	9,796	–	26,786	36,582

Farmland development, technical know-how and trademarks acquired separately with definite useful lives are measured initially at cost and amortised on a straight-line basis over their estimated useful lives as follows:

Farmland development	18 years
Technical know-how	5 years
Trademarks	10 years

Amortisation expenses of approximately HK$437,000 (2013: HK$484,000) is included in the administrative expenses in the consolidated statement of profit or loss.

Included in farmland development is an amount of approximately HK$9,192,000 (2013: HK$9,796,000) representing the carrying amount of farmland expenditure and cost for preparation works. The net carrying amount will be amortised over the remaining useful lives for the range of 8 to 16 years (2013: 9 to 17 years).

The trademark acquired in the business combination is classified as an intangible asset with indefinite life. The management of the Group considered that the legal rights of the trademark is capable of being renewed indefinitely at insignificant cost and it is expected to generate positive cash flows indefinitely. The trademark will not be amortised until its useful life is determined to be finite upon reassessment of its useful life annually by the management. Instead, they will be tested for impairment and whenever there is an indication that it may be impaired.

19. INTANGIBLE ASSETS *(Continued)*

Impairment test of intangible assets

Trademark with indefinite useful life are allocated to the Group's CGU of Chinese baijiu business.

During the year, the Chinese baijiu business was seriously suffered from the ongoing government crackdown on extravagance. The demand for high-end Chinese baijiu has experienced a significant drop especially those consumed at official banquets. The management of the Company believed that the expected revenue generated from Chinese baijiu business will be affected with reference to the declined turnover of the Chinese baijiu business and the continuous adjustment on the high-end baijiu sector. Based on the current year's assessment, an impairment loss of approximately HK$26,355,000 (2013: Nil) was recognised for the trademark in relation to Chinese baijiu business. Details of the impairment testing of that CGU are set out in note 21.

20. AVAILABLE-FOR-SALE INVESTMENT

	2014 **HK$'000**	2013 HK$'000
Unlisted securities, at cost	**1,810**	1,847

The above unlisted securities represent unlisted equity securities issued by a private entity incorporated in the PRC which is engaged in financial services business. The investment is stated at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

21. GOODWILL

	HK$'000
Cost	
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	177,959
Accumulated impairment losses	
At 1 January 2013	–
Impairment loss recognised for the year	33,510
At 31 December 2013 and 1 January 2014	33,510
Impairment loss recognised for the year	144,449
At 31 December 2014	177,959
Carrying amounts	
At 31 December 2014	**–**
At 31 December 2013	144,449

21. GOODWILL *(Continued)*

Goodwill is allocated to the Group's CGU identified according to business as follows:

	2014 **HK$'000**	2013 HK$'000
Wine business	–	96,918
Chinese baijiu business	–	47,531
	–	144,449

Impairment test of goodwill

During the year, the management of the Company has reviewed the operation and development of the Group's business in the PRC. Following the ongoing PRC government's policy for cracking down on extravagant spending in government departments and stated-owned institutions and enterprises, the management of the Company believed that the Group's expected revenue generated from wine and Chinese baijiu businesses will be affected and the overall market situation of the industry remains challenging. Based on the current year's assessment, the impairment losses of approximately HK$96,918,000 (2013: HK$33,510,000) and HK$47,531,000 (2013: Nil) were recognised for the goodwill relating to the wine and Chinese baijiu businesses respectively. The assessment was made based on management's cash flow projections derived from the latest expected revenue growth and profitability of the wine and Chinese baijiu businesses and the PRC economy.

The recoverable amounts of the above CGUs of wine and Chinese baijiu businesses have been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period at a pre-tax discount rate of 16.9% per annum and 16.7% per annum for wine and Chinese baijiu businesses respectively (2013: 19.4% per annum for wine business and 25.4% per annum for Chinese baijiu business) and with annual growth rate of 5.0% (2013: 5.0% to 10.0%). The growth rates used are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU. Another key assumption for the value-in-use calculation is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectation for the market development.

22. INTERESTS IN SUBSIDIARIES

	2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	**240,828**	240,828
Amounts due from subsidiaries	**142,255**	152,357
	383,083	393,185

The amounts due from subsidiaries are unsecured, interest-free and no fixed repayment terms.

General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2014 are set out below:

Name of subsidiary	Place of incorporation/ registration and operations	Registered paid-up capital	Proportion of equity interest and voting power held by the Company — Directly 2014 %	Directly 2013 %	Indirectly 2014 %	Indirectly 2013 %	Principal activities
Shangri-la Winery Company Limited (Note i) ("Shangri-la Winery")	The PRC	RMB56,560,000	**95**	95	**–**	–	Production and distribution of wine and investment holding
Shangri-la (Qinhuangdao) Winery Company Limited (Note i) ("Shangri-la (Qinhuangdao)")	The PRC	RMB40,000,000	**25**	25	**71**	71	Production of winery products
Diqing Shangri-la Economics Development Zone Tinlai Winery Company Limited	The PRC	RMB8,200,000	**–**	–	**95**	95	Distribution of winery products
Yunnan Diqing Shangri-la YuQuan Investment Company Limited	The PRC	RMB10,000,000	**–**	–	**66**	66	Investment holding
Qinhuangdao Shangri-la Grape Plantation Company Limited	The PRC	RMB2,000,000	**–**	–	**96**	96	Procurement and distribution of grape
Yantai Shangri-la Masang Château Company Limited	The PRC	RMB50,000,000	**–**	–	**100**	100	Production of winery products
Diqing Shangri-la Economics Development Zone Zimi Winery Sales Company Limited	The PRC	RMB2,000,000	**–**	–	**95**	95	Distribution of winery products

22. INTERESTS IN SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Registered paid-up capital	Proportion of equity interest and voting power held by the Company				Principal activities
			Directly		Indirectly		
			2014 %	2013 %	2014 %	2013 %	
Heilongjiang Province YuQuan Winery Company Limited	The PRC	RMB4,060,000	–	–	66	66	Production of Chinese baijiu products
Harbin City Xinlong Winery Company Limited	The PRC	RMB500,000	–	–	66	66	Distribution of Chinese baijiu products
Harbin City Longcheng Winery Company Limited	The PRC	RMB500,000	–	–	66	66	Distribution of Chinese baijiu products

Notes:

i Shangri-la Winery and Shangri-la (Qinhuangdao) were formed as Chinese foreign equity joint venture companies in the PRC under joint venture agreements dated 17 May 2005 and 3 June 2005 respectively.

ii None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particular of excessive length.

Details of non-wholly owned subsidiary that has material non-controlling interests

The directors of the Company made an assessment as at the date of initial application of HKFRS 12 and at the end of the reporting period. The total non-controlling interests for the year is approximately HK$66,039,000 (2013: HK$102,004,000) of which approximately HK$51,063,000 (2013: HK$86,412,000) is for Yunnan Diqing Shangri-la YuQuan Investment Company Limited in which the proportion of equity interests and voting rights held by non-controlling interests is 34% (2013: 34%). There is no other non-controlling interests individually that is material to the Group.

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiary that has material non-controlling interests *(Continued)*

The summarised financial information of Yunnan Diqing Shangri-la YuQuan Investment Company Limited is set out below:

Yunnan Diqing Shangri-la YuQuan Investment Company Limited

	2014 HK$'000	2013 HK$'000
Current assets	**95,037**	166,485
Non-current assets	**146,076**	232,497
Current liabilities	**(144,159)**	(188,689)
Non-current liabilities	**(13,037)**	(19,994)
Equity attributable to owners of the company	**32,854**	103,878
Non-controlling interests	**51,063**	86,412
Revenue	**94,017**	147,419
Expenses	**(191,257)**	(135,823)
(Loss) profit for the year	**(97,240)**	11,596
(Loss) profit attributable to owners of the company	**(64,665)**	7,711
(Loss) profit attributable to non-controlling interests	**(32,575)**	3,885
(Loss) profit for the year	**(97,240)**	11,596
Other comprehensive (expense) income attributable to owners of the company	**(5,506)**	2,415
Other comprehensive (expense) income attributable to non-controlling interests	**(2,774)**	1,216
Other comprehensive (expense) income for the year	**(8,280)**	3,631
Total comprehensive (expense) income attributable to owners of the company	**(70,171)**	10,126
Total comprehensive (expense) income attributable to non-controlling interests	**(35,349)**	5,101
Total comprehensive (expense) income for the year	**(105,520)**	15,227
Dividend paid to non-controlling interests	**–**	–
Net cash (used in) generated from operating activities	**(28,964)**	53,916
Net cash generated from (used in) financing activities	**–**	–
Net cash used in investing activities	**(4,919)**	(16,867)
Net (decrease) increase in cash and cash equivalents	**(33,883)**	37,049

The information above is the amount before inter-company eliminations.

23. INVENTORIES

	2014 HK$'000	2013 HK$'000
Raw materials	**161,873**	148,100
Work in progress	**38,013**	38,745
Finished goods	**108,416**	113,653
	308,302	300,498
Less: Write-down of obsolete inventories	**(60,246)**	(54,205)
	248,056	246,293

The directors of the Company has assessed the net realisable values and condition of the Group's inventories as at 31 December 2014 and have considered a write-down of obsolete inventories of approximately HK$7,928,000 (2013: HK$54,205,000) be made.

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$119,943,000 (2013: HK$142,340,000).

Included in raw materials of approximately HK$103,031,000 (2013: HK$102,502,000) were unprocessed wines.

24. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2013: 30 to 90 days) to its trade customers.

	2014 HK$'000	2013 HK$'000
Trade and bills receivables	**23,133**	39,707
Less: Impairment losses recognised for the year	**(81)**	(257)
	23,052	39,450

24. TRADE AND BILLS RECEIVABLES *(Continued)*

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment losses, is as follows:

	2014 **HK$'000**	2013 HK$'000
Within 30 days	**6,027**	37,740
More than 30 days and within 60 days	**–**	1,710
More than 60 days and within 90 days	**1,082**	–
More than 90 days and within 180 days	**15,943**	–
More than 180 days and within 360 days	**–**	–
At 31 December	**23,052**	39,450
Represented by:		
Receivables from related parties	**17,969**	29,811
Receivables from third parties	**5,083**	9,639
	23,052	39,450

All trade and bills receivables were denominated in RMB.

The movements in impairment losses of trade and bills receivables are as follows:

	2014 **HK$'000**	2013 HK$'000
At 1 January	**257**	171
Exchange alignment	**(5)**	6
Impairment losses recognised	**–**	82
Written off during the year as uncollectible	**(171)**	–
Reversal of impairment losses	**–**	(2)
At 31 December	**81**	257

The Group does not hold any collateral over these balances.

24. TRADE AND BILLS RECEIVABLES *(Continued)*

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	2014 HK$'000	2013 HK$'000
Neither past due nor impaired	**7,109**	39,450
One to six month past due	**15,943**	–
Six months to one year past due	**–**	–
	23,052	39,450

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

At 31 December 2014, receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS PAID AND OTHER RECEIVABLES

	The Group		**The Company**	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Prepayments	**20,444**	62,113	**153**	737
Deposits paid	**1,675**	1,574	**513**	387
Other receivables	**20,826**	27,641	**146**	–
	42,945	91,328	**812**	1,124
Less: Impairment losses of other receivables	**(10,286)**	(13,719)	**–**	–
	32,659	77,609	**812**	1,124
Represented by:				
Amounts due from related parties	**666**	4,258	**146**	–
Amounts due from third parties	**31,993**	73,351	**666**	1,124
	32,659	77,609	**812**	1,124

25. PREPAYMENTS, DEPOSITS PAID AND OTHER RECEIVABLES *(Continued)*

Included in the Group's "Prepayments" under current assets as at 31 December 2014 were prepayments for procurement of raw materials and advertising expenses, amounted to approximately HK$5,852,000 (2013: HK$21,406,000) and HK$10,000 (2013: HK$25,528,000) respectively, which were paid to the third parties of the Group.

The movements in provision for impairment losses of other receivables were as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**13,719**	13,578	**–**	–
Exchange alignment	**(276)**	354	**–**	–
Written off during the year as uncollectible	**(3,157)**	–	**–**	–
Reversal of impairment losses	**–**	(213)	**–**	–
At 31 December	**10,286**	13,719	**–**	–

Included in the impairment losses above with an aggregate balance of approximately HK$10,286,000 (2013: HK$13,719,000) were individual impaired other receivables. The individually impaired other receivables related to other debtors that were past due over one year or in default of payments and management assessed that these receivables are generally not recoverable. The Group does not hold any collateral over these balances.

The carrying amounts of the remaining other receivables that were neither past due nor impaired relate to other debtors for whom there were no recent history of default.

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Time deposits and banks balances and cash	**105,455**	141,623	**4,500**	7,351

At the end of reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$99,782,000 (2013: HK$132,800,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The time deposits carry interest at prevailing market deposit rates and mature within 3 months (2013: 1 month). The Group does not hold any collateral over these balances.

27. SHARE CAPITAL

	Number of shares		Par value	
	2014	2013	**2014**	2013
	'000	'000	**HK$'000**	HK$'000
Authorised: Ordinary share of HK$0.01 each	**16,000,000**	16,000,000	**160,000**	160,000
Issued and fully paid: At the beginning of the year	**1,668,532**	1,668,532	**16,685**	16,685
At the end of the year	**1,668,532**	1,668,532	**16,685**	16,685

28. RESERVES

(a) The Group

Movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 54.

(b) The Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2013	409,918	(13,787)	396,131
Loss for the year	–	(14,209)	(14,209)
At 31 December 2013 and 1 January 2014	409,918	(27,996)	381,922
Loss for the year	–	(13,207)	(13,207)
At 31 December 2014	**409,918**	**(41,203)**	**368,715**

The Company did not have any distributable reserves for both years.

29. DEFERRED TAX LIABILITIES

The deferred tax liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

	HK$'000
Deferred tax arising from revaluation of assets as follows:	
At 1 January 2013	22,136
Exchange alignment	600
At 31 December 2013 and 1 January 2014	22,736
Exchange alignment	(436)
Credited to the consolidated statement of profit or loss	(6,589)
At 31 December 2014	**15,711**

The deferred tax liabilities of the Group recognised in the consolidated statement of financial position was attributable from revaluation of land and buildings and intangible assets upon acquisition of subsidiaries in 2005 and 2008 respectively. During the year, the deferred tax liabilities amounted to approximately HK$6,589,000 were credited to the consolidated statement of profit or loss upon impairment of trademark. Details of which was set out in note 19.

Under the New Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date is as follows:

	2014 **HK$'000**	2013 HK$'000
Within 90 days	**38,798**	36,730
More than 90 days and within 180 days	**2,015**	3,394
More than 180 days and within 360 days	**7,735**	9,543
	48,548	49,667

Trade payables are non interest-bearing and have an average term of four months.

31. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**14,892**	12,593	**3,083**	3,071
Deposits received	**102,078**	133,363	**–**	–
Other payables	**35,432**	28,771	**–**	19
	152,402	174,727	**3,083**	3,090

The carrying amounts of accruals, deposits received and other payables at the end of each reporting period approximate to their fair values due to their short-term maturity.

32. AMOUNTS DUE TO A RELATED PARTY

The amount is non-trade related, unsecured, interest free and repayable on demand.

33. BANK BORROWING

	2014	2013
	HK$'000	HK$'000
Bank borrowing comprised of:		
Bank loans – secured	**63,150**	64,445
	63,150	64,445
The borrowing is repayable as follows:		
Within one year or on demand	**63,150**	–
More than one year, but not exceeding two years	**–**	64,445
Total bank borrowing	**63,150**	64,445

Bank borrowing is secured by the followings:

(i) the Group's buildings, plant and machinery and land use rights with carrying amounts of approximately HK$26,973,000 (2013: HK$28,865,000), HK$11,448,000 (2013: HK$15,273,000) and HK$422,000 (2013: HK$441,000) respectively; and

(ii) personal guarantee from a director of the Company.

The Group's borrowing is denominated in RMB only.

The above bank borrowing is carried at variable (2013: variable) interest rate with maturity period not exceeding one year (2013: two years). The effective interest rate on bank borrowing is 6.22% (2013: 6.06%) per annum.

34. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged the following assets to secure the banking facilities granted to the Group:

	2014 HK$'000	2013 HK$'000
Land use rights (note 17)	422	441
Buildings (note 18)	26,973	28,865
Plant and machinery (note 18)	11,448	15,273
	38,843	44,579

35. OPERATING LEASES COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leasees in respect of rented premises which fall due as follows:

	2014 HK$'000	2013 HK$'000
Within one year	4,239	7,734
In the second to fifth year inclusive	8,051	9,967
Over five years	63,478	52,476
	75,768	70,177

Operating lease payments represent rentals payable by the Group for its certain office properties, warehouse and farmland. The average lease term of office properties and warehouse is 1 to 2 years, and that of farmland is 20 to 50 years. Rentals are fixed and no arrangement has been entered into for contingent rental payments.

36. CAPITAL COMMITMENTS

	2014 HK$'000	2013 HK$'000
Authorised and contracted for:		
In connection with the construction of winery warehouses and factories	45,352	49,212
In connection with acquisition of plant and equipment	4,254	6,010
	49,606	55,222

37. EMPLOYEE BENEFITS

Retirement Benefit Scheme

The Group operates a defined contribution retirement scheme (the "Defined Contribution Scheme") for certain qualifying employees. The assets of the Defined Contribution Scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost of the Defined Contribution Scheme charged to the consolidated statement of profit or loss represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the end of the reporting period, there was no significant forfeited contribution which arose upon employees leaving the Defined Contribution Scheme and which was available to reduce the contributions payable in future years.

With effective from 1 December 2001, the Group has jointed a mandatory provident fund scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the consolidated statement of profit or loss represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

The employees of the Company's subsidiaries in the PRC are members of the state-managed retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basis salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-managed retirement benefit scheme represent for the entire pension obligations payable to retired employees.

38. SHARE OPTION SCHEMES

On 23 August 2012, the Company adopted a new share option scheme (the "2012 Scheme") for the primary purpose of providing incentives to its directors and eligible employees. Unless otherwise terminated, the 2012 Scheme would remain valid and effective until 22 August 2022.

Under the terms of the 2012 Scheme, the Board is entitled to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group or any invested entity.

The total number of shares which may be issued upon exercise of all options to be granted under the 2012 Scheme and any other schemes must not in aggregate exceed 10% of the total issued share capital of the Company as at the date of adoption of the 2012 Scheme. The total number of shares in respect of which options may be granted to each eligible participant (including exercised and outstanding options) in any twelve-month period shall not exceed 1% of the number of shares in issue unless shareholders' approval is obtained in general meeting.

Options granted must be taken up within 30 days from the date of grant with payment of HK$1 per grant. Options may be exercised at any time from the date of grant up to the 10th anniversary of the date of grant. In each grant of options, the Board may at their discretion determine the specific exercise period. The exercise price is determined by the Board, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

No option has been granted under the 2012 Scheme since its adoption.

39. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the consolidated financial statements, the Group has entered into the following significant related party transactions, which in the opinion of the directors of the Company, were conducted under commercial terms and in the normal course of the Group's business.

	2014 HK$'000	2013 HK$'000
Sales of goods		
Yunnan Jinliufu Trading Limited ("Yunnan JLF Trading")	**27,684**	33,832
VATS Chain Liquor Store Management Company Limited ("VATS Chain Store")	**13,220**	6,748
Purchases of goods		
Yunnan Jinliufu Liancai Trading Company Limited ("Jinliufu Liancai")	**–**	3,389
Rendering of services		
VATS Fine Wines & Spirits (H.K.) Company Limited	**744**	744

The above companies are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company, is a substantial shareholder of all companies.

Sales and purchases transactions were carried out at cost plus mark-up basis.

Notes:

1. Included in the sales of goods to Yunnan JLF Trading and VATS Chain Store during the year ended 31 December 2014, approximately HK$27,684,000 and HK$13,220,000 respectively were carried out under the revised master sales agreements dated 6 July 2012 and which entered into with each of Yunnan JLF Trading and VATS Chain Store respectively. Details of the transactions were set out under the paragraph of "Continuing Connected Transactions" in the Directors' Report.

2. No purchase of goods from Jinliufu Liancai during the year ended 31 December 2014 under the revised master purchase agreement dated 6 July 2012 which entered into between the Group and Jinliufu Liancai. Details of the transactions were set out under the paragraph of "Continuing Connected Transactions" in the Directors' Report.

(b) Compensation of key management personnel

Remuneration for key management personnel, including amounts paid to the directors of the Company and certain of the highest paid employees, as disclosed in note 11, is as follows:

	2014 HK$'000	2013 HK$'000
Short-term benefits	**4,965**	4,260
Post-employment benefits	**34**	33
	4,999	4,293

40. GOVERNMENT GRANTS

During the year, the Group received government grants of approximately HK$10,461,000 (2013: HK$14,224,000) for the contribution towards the business in Yunnan, Qinhuangdao, Yantai and Yuquan, the PRC. The amount has been included in other revenue for the year.

41. NON-CASH TRANSACTIONS

The Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2014 and 2013.

42. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2014.

43. COMPARATIVE FIGURES

Certain comparative figures of prior years have been re-presented to conform with the current year's presentation.

44. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 27 March 2015.

RESULTS

	For the year ended 31 December				
	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Turnover	337,133	400,272	366,208	336,563	**255,379**
Profit (loss) from operating activities	66,731	84,123	45,974	(68,187)	**(223,866)**
Finance costs	(4,522)	(4,833)	(4,277)	(3,918)	**(3,947)**
Profit (loss) before taxation	62,209	79,290	41,697	(72,105)	**(227,813)**
Taxation	(16,621)	(21,449)	(18,346)	(7,660)	**1,911**
Profit (loss) for the year	45,588	57,841	23,351	(79,765)	**(225,902)**
Attributable to:					
Owners of the Company	38,314	45,585	9,832	(81,975)	**(193,044)**
Non-controlling interests	7,274	12,256	13,519	2,210	**(32,858)**
Profit (loss) for the year	45,588	57,841	23,351	(79,765)	**(225,902)**
Dividend	16,685	–	–	–	**–**

ASSETS AND LIABILITIES

	As at 31 December				
	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Total assets	890,559	978,475	1,045,368	1,017,389	**743,692**
Total liabilities	(223,586)	(253,289)	(282,731)	(319,325)	**(282,243)**
Non-controlling interests	(69,327)	(83,116)	(98,082)	(102,004)	**(66,039)**
Shareholders' funds	597,646	642,070	664,555	596,060	**395,410**